Newfoundland and Labrador

REPORT OF THE AUDITOR GENERAL
(Summary)

To the House of Assembly

for the Year Ended
31 March 2001

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Preface

This document is presented as a summary of the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2001*. That Report contains approximately 350 pages of conclusions, commentary, recommendations and auditees' comments. When readers identify a topic of interest, we encourage them to read the relevant section in the Report. This document contains information on the items reported in Chapters 1 through 4 and are numbered to coincide with the Report.

Introduction

The *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2001* was prepared in compliance with Section 12 of the *Auditor General Act*. Section 12 requires that the Report outline significant matters noted during the course of examining the accounts of the Province, agencies of the Crown and other entities which, in our opinion, should be brought to the attention of the House of Assembly.

Comments on the audit of the financial statements of the Province are contained in a separate report entitled *Report of the Auditor General to the House of Assembly on the Audit of the Financial Statements of the Province for the Year Ended 31 March 2001*. Therefore, along with this Summary, two reports are tabled before the House of Assembly.

Chapter 1

Auditor General's Overview

This chapter provides an introduction to the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2001*.

Chapter 2

Comments on Public Sector Accountability

In my previous Reports to the House of Assembly, I have expressed concern over the lack of information being provided to the House of Assembly by government departments, agencies of the Crown and Memorial University of Newfoundland all of which are funded primarily by the public purse. Since $4 billion in funding is approved annually for these organizations during the annual budgetary process, the House of Assembly (and the public) should receive information on how each organization plans to spend its funding, how it actually spent the funding provided, and what results the funding achieved. This information would provide for the accountability of Government departments, Crown agencies, and Memorial University.

For each of the past ten years I have recommended the implementation of a legislated accountability framework for all public sector entities in the Province, including government departments, all Crown agencies and Memorial University. I have also recommended that the framework include a strategic and operational planning process, clearly defined objectives, measurement criteria, a financial budget and a reporting system which provides appropriate information at various levels. The reporting process should include reports to the House of Assembly.

Again this year, as in previous years, very little information is being provided to the House of Assembly. While considerable attention is given to the government's budget, there is a lack of emphasis on receiving and reviewing information on how departments, Crown agencies and Memorial University intended to spend the monies which were approved during the budget process and compared with how they actually spent those monies.

Our review of the legislation of the other jurisdictions has disclosed that Canada and the other provinces have some form of legislation which requires that departments and Crown agencies table annual reports on their operations. In addition, in a number of provinces Treasury Board (Management Board) has provided formal directives relating to the preparation and tabling of annual reports. Our review has disclosed that in all jurisdictions, except this Province, an annual report is required to be tabled in the legislature by departments and Crown agencies.

Government has not made sufficient progress in implementing a framework of accountability for Government departments, Crown agencies and Memorial University.

While Government has undertaken some initiatives to improve accountability within Government, none of the initiatives undertaken by Government require any of the plans, information or reports to be tabled in the House of Assembly. True accountability requires that this information be provided to the House of Assembly.

I recommend that Government draft legislation for consideration by the House of Assembly which requires that Government and all of its departments and Crown agencies including Memorial University of Newfoundland be held accountable to the Legislature for their use of public resources. This legislation should, as a minimum, require that Government, its departments and each of its other entities table annual accountability reports in the House of Assembly on their financial and operational results compared with approved plans.

Chapter 3

3.1 Monitoring Agencies of the Crown

As at 31 March 2001 there were approximately 151 (2000 - 154) agencies of the Crown in the Province. Of these, 85 (2000 - 84) were required to prepare annual financial statements, while the remaining 66 (2000 - 70) were considered non-financial and were not required to prepare financial statements. Any expenditures related to the operation of these 66 entities are included with those of the government department responsible for the entity and are audited annually as part of our audit of the public accounts of the Province.

Of the 85 entities required to prepare annual financial statements, 31 (2000 - 31) were audited by our Office while 52 (2000 - 53) were audited by private sector auditors. Two of the 85 entities, the Memorial University Foundation and the Newfoundland and Labrador Occupational Therapy Board, have never submitted audited statements in accordance with governing legislation.

Most agencies of the Crown do not have any requirement to report to the House of Assembly on the discharge of their responsibilities. As a result, a major role of this Office is to monitor these entities in order to provide some accountability to the House of Assembly. Section 14 of the *Auditor General Act* requires the auditor of an agency of the Crown or a Crown controlled corporation to deliver to the Auditor General, after completion of the audit, a copy of the auditor's report, audited financial statements and recommendations to management. These financial statements and management letters along with our Office's audits of Crown agencies provide the basis for our monitoring of all Crown agencies.

The results of our monitoring activities are presented in Part 3.1 of the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2001*.

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

As part of our audit of the financial statements of the Consolidated Revenue Fund (CRF), we perform tests and reviews of the expenditures made by the various departments.

During the past year, we obtained expenditure information from Government's accounting system relating to all expenditures of the Consolidated Revenue Fund. We performed a general review and analysis of amounts paid relating to: grants and subsidies; property, furnishings and equipment; purchased services; professional services; allowances and assistance; and transportation and communications. Details of the expenditures in each of these categories are presented in Part 3.2 of the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2001*.

3.3 Government's Results of Financial Operations

Each year a budget document is debated and approved in the House of Assembly. This document outlines Government's budgeted revenues and expenditures and its surplus or deficit for the fiscal year on a cash basis. This budget document represents financial planning information published by Government which focuses on its finances as set out in one government fund called the Consolidated Revenue Fund. The Consolidated Revenue Fund represents the activities of the Departments of Government and does not include all of the activities of Government's Crown agencies. The budget document serves as one of the means by which Government is held accountable for its activities in any given year. In accordance with the *Financial Administration Act*, Government is required to table its financial statements which outline the actual revenues and expenditures along with the budget approved by the House of Assembly.

This year, I am again expressing my concern with the manner in which the Government is calculating its surplus or deficit. Specifically, I am concerned about the way Government can "adjust" its actual cash surplus or cash deficit through arbitrary Government decisions about which revenues or expenditures to include. For the 2000-2001 fiscal year, if Government had chosen not to defer revenues which it had budgeted and had not incurred expenditures in contravention of the *Financial Administration Act*, it would have reported a cash surplus of $179.7 million for the Consolidated Revenue Fund rather than a cash deficit of $30 million.

I am also concerned that the budget or financial planning information published by Government focuses on an incomplete picture. This planning information is not complete because the budget is prepared on a cash basis of accounting and therefore, does not include many significant accounting adjustments or transactions required to provide the actual results of Government operations. In addition, the financial planning information published by Government focuses on its finances as set out in one government fund called the Consolidated Revenue Fund. That picture is not complete because other Government activity takes place outside of that Fund. This activity takes place in organizations including the Health Care Sector, the Education Sector, Newfoundland and Labrador Hydro and other organizations which are owned or controlled by, and are accountable to, Government.

When all of these accounting transactions and activities of Government agencies outside of the Consolidated Revenue Fund are included, Government's actual deficit for the year ended 31 March 2001 is $349.7 million.

3.4 Creation of Crown Corporations and Borrowing Without Legislative Authority

Crown agencies are generally created by the Legislature under some form of legislation to be an instrument for carrying out public policy on behalf of the Crown. This legislation generally provides authority and direction relating to the mandate, purpose, and responsibility of each entity.

Of the 85 Crown agencies which existed at 31 March 2001, 16 were created under the *Corporations Act* rather than by legislation enacted by the Legislature. If there is to be appropriate legislative control over the creation and operation of Crown agencies and if they are to be held accountable to the House of Assembly, then all Crown agencies should be created under the authority of the Legislature. An act of the Legislature would outline the mandate of a Crown agency and also state its purpose, authority and responsibility. In this way all members of the House of Assembly would be aware of newly created Crown agencies.

The most recent financial statements of the 16 Crown agencies created under the *Corporations Act* disclosed that four of these entities had a total of $7.1 million in outstanding debt due to entities outside of the government reporting entity. If the enabling legislation of an agency does not provide specific authority for it to borrow funds or if it has been created under the *Corporations Act*, then the Crown agency does not have the legislative authority to borrow. The *Financial Administration Act* prohibits the raising of money by way of loan without legislative authority. As a result, these entities contravened the *Financial Administration Act* by borrowing money without legislative authority.

3.5 Non-Compliance with the Financial Administration Act

The *Financial Administration Act* is the primary act governing the financial operations of the Province. The *Act* outlines the legislative requirements for the collection and disbursement of public funds, the raising of certain loans authorized by the Legislature and the auditing of the financial statements of the Province. Concepts provided for in the *Financial Administration Act* and central to our democratic system are that Government can not spend beyond the limits approved by the Legislature, money can only be spent for purposes authorized by the Legislature and Government can not raise money without the approval of the Legislature.

Each year our audit identifies instances whereby departments or Crown agencies did not comply with the *Financial Administration Act*. This *Act* is one of the most significant pieces of legislation since it provides for the collection and disbursement of all public money and the raising of all public debt. During the past two years I have noticed an increase in the number of significant instances of non-compliance with the *Financial Administration Act*. In prior years, instances of non-compliance were more isolated and could be attributed to errors. The instances of non-compliance identified during my audit work this year are more prevalent.

During the reviews conducted by our Office for the year ended 31 March 2001, we determined that a number of government departments are not complying with the *Financial Administration Act*. Specifically:

- a number of departments entered into commitments for goods and services in excess of the amount of funding provided for by the Legislature;
- a number of departments made payments from accounts for purposes other than those authorized by the Legislature; and
- a number of Crown agencies borrowed money without the authority of the Legislature.

3.6 Special Warrants

The common parliamentary means of providing spending authority to government is through the annual passing of supply acts. This involves having the Members of the House of Assembly vote on the government's funding requests before the spending authority is provided. Approval by a majority of the Members of the House of Assembly is needed to pass an Act.

Through the use of a "special warrant", Government can, without the prior approval of the Members of the House of Assembly, spend public money. The *Financial Administration Act* outlines the circumstances which must exist in order for a special warrant to be approved and additional funding provided to Government.

Government's use of special warrants increased significantly from 1997 onward. I have previously expressed concern that many of these special warrants do not meet the requirements of the *Financial Administration Act*. I have also indicated that Government's use of special warrants, especially during the last month of each fiscal year are used to reduce the cash surplus of Central Government and produce whatever financial results the Government desires.

There were 6 special warrants totalling $61.5 million issued in the 2000-01 year, of which, four amounting to $33.0 million were issued in March 2001. Our review of the four special warrants which were issued on 28 and 30 March 2001 indicated that they were issued in contravention of the *Financial Administration Act* in that they were not urgently required. Since the funds were not urgently required and the House of Assembly was in session, the request for the additional funding should have been included in either a Supplementary Supply Act for 2000-01 and presented to the House of Assembly for approval in that year or included in the 2001-02 budget.

Of the special warrants totalling $268.3 million which were issued from 1999 to 2001, $172.5 million or 64% were for the Department of Health and Community Services. For the preceding six fiscal years 1993 to 1998, only $7.3 million in special warrants was issued for the Department of Health and Community Services. The large amount of funding provided by way of special warrant rather than through the normal budget process is indicative of the significant issues regarding the amount of funding required by the Health Care Boards to provide health services.

Of the $172.5 million in special warrants issued from 1999 to 2001 for the Department of Health and Community Services, $131.4 million was provided during the last month of the fiscal year. Government generally waits until March of each year, determines its cash surplus at that point in time and provides additional funding to the extent necessary to provide a predetermined financial result in the Consolidated Revenue Fund.

3.7 Accounts and Loans Receivable in Government

In my previous reports to the House of Assembly, I have indicated that Government needs to significantly improve on its collections of amounts owed to it. Government's financial information indicates that Government does not do a good job in collecting amounts owed to it. As a result, a significant portion of these amounts have been written off or are considered doubtful of collection. These amounts owed include accounts and taxes receivable, as well as loans, advances and mortgages receivable.

Our review disclosed that Government has written off $216 million owed to it during the past 10 years. In addition, Government was owed $515 million as of 31 March 2001 of which $273 million was considered doubtful of collection. In my opinion, Government does not do a good job of collecting amounts owed to it.

Our review also disclosed that, as at 30 November 2001, all Government departments except Works, Services and Transportation had implemented Government's new accounts receivable system.

3.8 A Review of Overtime

For the year ended 31 March 2001, employees of Government departments were paid salaries of $288.3 million which included $13.5 million in overtime compensation. Overtime compensation is provided to employees who are required to perform duties outside normal working hours. Compensation for overtime is determined in accordance with various policies and collective agreement provisions.

Over the last five years reviewed, overtime payments have increased significantly, from $7.7 million for the year ended 31 March 1997 to $13.5 million for the year ended 31 March 2001. This represents an increase of 75% over these five years. Three departments incurred 88% of the overtime paid during the year ended 31 March 2001. These three departments were the Department of Works, Services and Transportation (69%), the Department of Justice (12%), and the Department of Forest

Resources and Agrifoods (7%).

For the last three fiscal years, Government significantly exceeded its budget for overtime by $4.4 million, $5.6 million and $5.5 million respectively. Three departments were responsible for 84% of the overtime payments in excess of budget during the year ended 31 March 2001. These three departments were the Department of Works, Services and Transportation (58%), the Department of Justice (13%), and the Department of Forest Resources and Agrifoods (13%).

Our review of the transfer of funds to and from salaries for the year ended 31 March 2000 indicated that many of these transfers did not comply with Government's Transfer of Funds Policy.

In addition to paying employees for overtime worked, Government also allows employees to accumulate or bank their overtime and use it as paid leave or receive monetary compensation at a later date such as upon termination. Accumulated and unpaid overtime owed to employees has increased from $2.4 million at 31 March 1997 to $4.2 million at 31 March 2001. Although Government knows that this amount is owed to employees as at 31 March 2001, because of the inadequacies in leave systems in most departments, it does not have details on the total overtime earned and banked during the year or the amount which has been used as paid leave. As a result of this lack of information, Government cannot adequately manage overtime costs.

Overtime payments to employees are not always accurate. Our review of 150 random overtime payments in 2000-2001 identified 10 payment errors ranging from an underpayment of $18 to an overpayment of $1,015.

3.9 A Review of Succession Planning

Human capital is the collective knowledge, skills, and experience of an organization's staff. Investment in human capital within the public service is significant. Recorded in Government's

Summary Financial Statements for the year ended 31 March 2001 are salaries and employee benefits of $1.5 billion which represents 36% of total expenditure. The focus of this report is on central Government operations which recorded $337 million in salaries and employee benefits in the Consolidated Revenue Fund Financial Statements for the year ended 31 March 2001. The maintenance and development of human capital within the public service is essential for the delivery of quality public service.

For purposes of our review, the core public service is defined as employees active on the payroll who are classified as permanent, temporary or contractual, including inactive employees who are expected to return to work (e.g. paid or unpaid education leave, extended sick leave, injury on duty, leave without pay, maternity leave), but excluding Members of the House of Assembly, political staff, special project staff, students and student assistants.

Over the past fifteen years, there has been a significant increase in the average age of the core public service. From 1987 to 2001, the average age of the core public service has increased from 38.8 years to 42.4 years, an increase of 3.6 years or 9.3%.

During this same period, the age distribution of the public service has changed dramatically with the percentage of employees less than 35 years of age decreasing from 41% to 21%, while employees between 36 and 49 years of age increased from 40% to 55% and employees aged 50 years and older increased from 19% to 24%.

Over the next six years, 25% of the core public service including 46% of Executive and 41% of Senior Managers will reach the age of 56 or older and may retire. By 2012, at least 42% of the core public service, including 76% of Executive and 70% of Senior Managers may retire. These statistics indicate the need for succession planning in Government including recruitment and retention strategies, and training and development.

While Treasury Board Secretariat and Government departments have identified the need for succession planning as a significant human resources issue, plans of actions to address this issue have been isolated, are general in nature, or are planned for development in 2002 and beyond. Unless Government implements effective human resources strategies to address the upcoming retirement of a significant portion of the core public service, including recruitment and training, the attrition rate due to retirement has the potential to leave a significant gap in the knowledge, skills and experience required to provide a quality public service.

3.10 A Review of Protocol Expenditures

The Protocol Office functions under the Cabinet Secretariat of the Office of the Executive Council. The Protocol Office is responsible for the co-ordination of major Government sponsored events, and the arrangement of itineraries for visiting dignitaries.

Our review of expenditures charged to the Protocol Office for the year ended 31 March 2001 disclosed the following:

- Expenditures totalling $676,431 were charged to Protocol accounts for the year ended 31 March 2001. Of this amount, $150,867 was subsequently transferred to other expenditure accounts. The $150,867 charged to Protocol was not Protocol expenditure and as a result, expenditures were made from this account for purposes other than those approved by the Legislature and in contravention of the *Financial Administration Act*.

- Travel for the Premier and his staff is being charged not only to the Protocol Office and the Premier's Office but also to the Minister's Office in other departments and in many cases, to expenditure accounts other than the Minister's Office. In addition, our review indicated that $12,815 in travel costs for the Premier and his staff that was originally paid through the Protocol account was subsequently reimbursed by Newfoundland and Labrador Hydro and recorded as an expenditure in that Corporation. As a result, some of these expenditures are not being charged to appropriate expenditure accounts. In addition, as this travel is charged to such a variety of accounts, any information requests pertaining to travel for the Premier and his staff are very difficult to determine.

- Contrary to Government policy, departments are not always informed of expenditures being transferred from Protocol to expenditure accounts in their departments. This process of transferring expenditures from Protocol to other departments also makes it more difficult for these departments to manage and control their own operating budgets.

- Executive Council is not complying with Government's "Transfer of Funds Policy" as funds were transferred out of an expenditure account even though there were no permanent savings and additional monies had been transferred back in.

3.11 Labrador Transportation Initiative Fund

In September 1996, Cabinet authorized the Premier and the Minister of Works, Services and Transportation to meet with the Federal Minister of Transport to establish principles upon which the Province and the Federal Government could negotiate funding for a Labrador transportation initiative. The framework for the initiative was to include provision whereby the Province would accept responsibility for the Labrador Coastal Service and the St. Barbe Ferry Service in return for financial compensation from the Federal Government sufficient to operate these services in perpetuity.

In March 1997, the Province entered into an agreement with the Federal Government and received $347.6 million in December 1997 as a cash settlement, together with related ferry service infrastructure. In consideration for this compensation, the Province assumed all responsibility for maintaining the operation of marine freight and passenger services on and to the coast of Labrador.

Government decided that the Labrador Transportation Initiative Fund would be used to operate the Labrador ferry services and construct the Trans Labrador Highway. The $347.6 million was invested by the Province and interest earned increased it to $349.2 million by January 1998 when it was transferred to the Fund.

In May 2001, the Department of Works, Services and Transportation estimated that the Labrador Transportation Initiative Fund will be depleted by 2014-15 after construction of the Trans Labrador Highway at an estimated cost for Phases I and II of $190.4 million, and estimated annual operating costs for the Labrador ferry services from 2002-03 to 2014-15 ranging from $13 million to $15 million. The operating costs estimated by the Department are based on discontinuing the ferry services from Lewisporte and St. Anthony to Labrador and disposing of the two ferry vessels, the Sir Robert Bond and the Northern Ranger. Our review indicated that as at November 2001, Government had increased its estimated costs to operate the Labrador ferry services for 2001-02 and 2002-03, and as a result, the Fund will be depleted earlier than 2014-15.

3.12 Computer Hardware - Agencies of the Crown

In the past decade, Government agencies have become increasingly reliant on computer technology to deliver and manage its programs. Accordingly, these agencies have made significant investments in computer hardware which consists of items such as computers, monitors and printers. Computer hardware is considered to be a moveable capital asset and as such, is susceptible to misappropriation or unintentional loss. As a result, it is important that all Government agencies have proper procedures and inventory systems in place to control and account for this computer hardware.

Of the 66 Government agencies included in the Province's Consolidated Summary financial statements, our review was conducted in 15 agencies throughout the Province. The objective of the review was to assess whether Government agencies have proper procedures and inventory systems in place to control and account for their computer hardware.

Our review indicated that controls over computer hardware in the 15 Government agencies reviewed are not adequate. Specifically:

- Agencies can not always locate their computer equipment. 3 of the 15 agencies reviewed did not have an inventory information system. Of the 12 remaining agencies that did have a system or an inventory listing, the information in these systems or on the listing was not complete or accurate.

  Our review at the 12 agencies that had an inventory information system indicated the following:

  - A sample of 241 purchases was selected of which 154 purchases were not recorded in the agencies' inventory information system and 36 items could not be located by the agencies at the time of our review. Subsequent to our review, agency officials indicated that 20 of 36 items not located at the time of our review were found and 2 had been disposed.

  - A sample of 699 items from the inventory information systems was selected of which 438 items of hardware or 63% were found where recorded in the inventory information systems, 97 items of hardware or 14% were found in a different location from that recorded in the inventory information systems and 164 items of hardware or 23% as recorded in the inventory information systems could not be located by either ourselves or officials of the particular agencies at the time of our review. Subsequent to our review, agency officials indicated that 45 of 164 items of hardware not located at the time of our review were found in a different location from that recorded in the inventory information system and 7 had been disposed.

  - A sample of 685 items of computer hardware was selected of which 254 items of hardware or 37% were found as recorded in the inventory information systems, 99 items of hardware or 14% were found in a different location from that recorded in the inventory information systems and 332 items of hardware or 49% that were examined were not recorded in the agencies' inventory information systems.

- Periodic physical counts of computer hardware are not conducted by 12 of the 15 agencies reviewed. One agency recently conducted a physical count of computer hardware, but there are no plans to conduct this count on an annual basis. The remaining 2 agencies indicate that they perform annual counts; however, one of these agencies did not provide us with any evidence of these counts and the inventory system maintained by the other agency is not maintained in an adequate manner to ensure an effective reconciliation with the physical count.

- Only 4 of the 15 agencies had documented and approved inventory control procedures for computer hardware.

3.13 Monitoring of School Boards

In 1996 the school system in the Province was reorganized with the dissolution of 27 church run school boards and the creation of 10 new English language school boards and one French language school board. The 27 school boards continued to exist and administer the schools within their jurisdiction until their dissolution on 31 December 1996. As at 31 December 1996, there were approximately 445 schools in the Province with a total enrolment of 110,450 students. As at 31 December 2000, there were 337 schools with a student enrolment of 90,167. The number of schools and student enrolment have declined by 24% and 18% respectively, in the past five years.

Our review of school boards in 2001 included an assessment and comparison of the financial position and operating results of each of the 11 boards. Our review disclosed the following:

- The 11 school boards had accumulated deficits totalling $100.006 million for the year ended 30 June 2001. This is comprised of $96.741 million in accrued severance pay and a net accumulated operating deficit of $3.265 million.

- During 2000-01, 6 of the 10 boards that had audits completed incurred operating deficits ranging from $21,000 for District 7 to $482,000 for District 1.

- Using 1995-96 as the base year which was the last full year that the former 27 school boards operated, school board provincial revenues have declined by $18.4 million, including $5.9 million in teaching services grants, $9.4 million in operating grants and $3.1 million in other revenues. The total revenue per pupil increased by 18% from $4,796 in 1995-96 to $5,636 in 2000-01.

- Using 1995-96 again as the base year which was the last full year that the former 27 school boards operated, school board expenditures declined by $17.8 million, comprising $9.1 million in instructional, $5.6 million in administration, and $3.1 million in other expenditures. Expenditure on instruction per pupil increased by 20% from $3,841 in 1995-96 to $4,604 in 2000-01.

- As indicated previously, during 2000-01, 6 of the 10 boards that have audits completed, incurred operating deficits. There was no approval given by the Minister to these 6 boards as required by the *Schools Act, 1997*. As a result, these boards did not comply with the *Schools Act, 1997*.

- In addition, the *Schools Act, 1997* requires each school board to submit its annual budget to the Minister at a date determined by the Minister. As of the date of our review in November 2001, the Department had received seven of the required 2001-02 budgets from the 11 school boards; five were received prior to the required date of 28 September 2001.

3.14 C.A. Pippy Park Commission

The C.A. Pippy Park Commission (the Commission) was incorporated in 1968 and operates under the authority of the *Pippy Park Commission Act* (the *Act*). The purpose of the Commission is to provide a park-like setting to house the headquarters of the Provincial Government, as well as various government, cultural and educational facilities, and Memorial University of Newfoundland. Its affairs are managed by a Board of Commissioners, the majority of whom are appointed by the Lieutenant-Governor in Council. The Commission has broad powers under the *Act* to implement a master plan and accordingly regulate land use within C. A. Pippy Park. In its financial statements for the year ended 31 March 2001, the Commission reported an operating deficit of $261,000 (2000 - deficit of $85,000).

The Commission currently owns the two golf courses located within Pippy Park. In November 1997, an agreement covering the management and operation of the two golf courses was entered into between the Commission, Thomas Development (1989) Corporation (TDC) and the Minister of Works, Services and Transportation on behalf of the Province. Under the agreement, TDC is to manage and operate the golf courses for an initial seven year term expiring 31 December 2004, with an option for an extended term after that date.

Our review covered two significant aspects of Commission operations, namely activities relating to capital transactions and the agreement covering the management and operation of the golf courses.

Our review disclosed that financial assistance has been provided to TDC which was not required under the management agreement. This assistance represents a direct subsidy to TDC's operations and can be summarized as follows:

- Short term, interest free, repayable advances of $10,000 made to TDC to cover start-up costs for each of the 1999 and 2000 golf seasons. Such advances were not approved by the Commission. In both instances, the funds advanced were refunded by TDC.

- In February 2001, a special assistance grant of $45,000 was paid by Government, through the Commission, to TDC. The $45,000 was charged to a program in the Department of Municipal and Provincial Affairs used for the "*.... payment of special assistance grants to municipalities.*" TDC is not a municipality and as a result, the Department of Municipal and Provincial Affairs contravened the *Financial Administration Act*.

- The golf course clubhouse was built and financed by TDC in 1998. Since the clubhouse was financed by TDC, it has been pledged as security for TDC's bank loan. As at the date of our audit, TDC owed the bank approximately $1.3 million. In 2000-01, the Commission spent $270,000 to make renovations on the clubhouse even though it is held as security for TDC's bank loan. Should TDC default on its loan at the bank, the bank would have first access to the clubhouse and other related assets.

- In March 2001, Government directed the Commission to waive the 2001 TDC fee of $250,000 owed to the Commission. In addition, the 31 March 2000 fee of $200,000 has not yet been received.

The Management Agreement between TDC and the Government is not always being complied with.

From 1 April 1997 to 31 March 2001, Government has provided the Commission with $658,000 in capital funding. Of the $658,000, approximately $337,000 was used for purposes other than intended by Government.

During 2000-01, $270,000 was provided by Government to the Commission for renovations at the golf course clubhouse. There was insufficient documentation at the Commission to support approximately $265,000 of the $270,000 spent on the clubhouse renovations in that there were no purchase orders or tenders. As a result, we could not determine how the various suppliers were selected and whether a fair and reasonable price was established.

3.15 Health and Post Secondary Education Tax

The Health and Post Secondary Education Tax (Payroll Tax) was introduced on 1 August 1990 by the Provincial Government as a revenue generating measure. The Tax Administration Branch of the Department of Finance is responsible for the administration of Payroll Tax by ensuring that the *Health and Post Secondary Education Tax Act* (the *Act*) and its regulations, along with Departmental policies, are being complied with by companies with employees in Newfoundland and Labrador. The *Act* requires that all employers pay a 2% tax on the portion of remuneration paid to employees who report for work in the Province and which is in excess of a tax free exemption. This exemption is available to all companies registered under the *Act*, although associated companies must share one exemption. This exemption is periodically revised by amending the *Act*.

For the year ended 31 March 2001, Government received $80.1 million in Payroll Tax of which $30.4 million was received from Provincial Government departments and agencies and $9.2 million was received from other levels of Government. For the year 2001-02, the threshold has increased from $400,000 to $500,000. Based on the results at 31 March 2001, this change in threshold will result in the elimination of approximately 805 businesses and $500,000 in revenues. As a result, next year the various levels of Government will be paying a higher proportion of the total Payroll Tax than companies in the private sector.

One of the most challenging issues facing the Department is how to determine whether all employers subject to this tax are registered. The Department relies mainly on voluntary compliance of employers to register themselves. The processes in place for the identification of unregistered employers is not adequate.

Although useful information is available from the Canada Customs and Revenue Agency that could be used to both identify unregistered employers and confirm the amount of Payroll Tax owing by employers, the Department has not used any of this data to confirm the amount of Payroll Tax owing by employers. The information has been used to identify unregistered employers. This comparison was completed for 1996, 1997, 1998 and 1999 and employers were identified as not being registered. However, a number of issues that were identified by using the data for all four years are still unresolved.

In January 2001, the Department of Finance advised remitters of payroll tax that the Minister had waived the requirement for an Annual Declaration in the 2000 taxation year (including the T4 and T4A Summary) as permitted by the *Act*. However, since the Department is not using information from the Canada Customs and Revenue Agency on a timely basis to verify the accuracy of payroll tax received from individual companies, the Annual Declaration and the accompanying T4 and T4A Summary would have provided some assurances as to whether companies had remitted the correct amount of Payroll Tax.

Employers that are below the exemption threshold are often terminated by the Department so they are no longer required to file monthly and annual returns. No one at the Department regularly reviews terminated employers to ensure that only those approved were terminated. Also, when employers are placed in this category, they are not considered for audit. In addition, the Department relies on these employers to re-register if their circumstances change.

The Department does not have an audit plan for Payroll Tax that would ensure employers are audited on a rational and cyclical basis.

At 31 March 2001, Payroll Tax receivables totalled $8.3 million of which $1.4 million had been outstanding in excess of 1 year. In addition, the Tax Administration System included $1 million in credit balances for which no refund had been made to employers.

3.16 Pooled Pension Fund - Actuarial Valuations

The Province of Newfoundland and Labrador Pooled Pension Fund was created 1 July 1980 under the authority of the *Pensions Funding Act* for the purpose of providing for the funding of pension plans sponsored by the Province. These plans include the Members of the House of Assembly Pension Plan, the Uniformed Services Pension Plan, the Teachers' Pension Plan and the Public Service Pension Plan. The affairs of the Fund are managed by the Pension Investment Committee, with the Minister of Finance as Trustee of the Fund.

Section 5 of the *Pension Benefits Act Regulations* requires the administrator of a pension plan to have the plan reviewed at intervals not exceeding three years and to file the resulting actuarial reports with the superintendent not later than 9 months after the review date. The latest valuation dates for the pension plans and the due dates for the next required valuation reviews and actuarial reports are as follows:

Plan	Latest Valuation Date	Required Valuation Date
MHA	31 December 1996	31 December 1999
Uniformed Services	1 January 1997	1 January 2000
Teachers'	31 August 2000	31 August 2000
Public Service	31 December 1997	31 December 2000

The actuarial report for the Teachers' Pension Plan, while completed in October of 2001, was not filed with the Superintendent until 9 January 2002. The required valuation reviews for the Members of the House of Assembly Pension Plan, the Uniformed Services Pension Plan, and the Public Service Pension Plan are still not completed as of 9 January 2002. As a result, the Pension Committee has not complied with the requirements of the *Regulations* with respect to any of the Province's pension plans.

3.17 Aquaculture Program

I have previously reported on Government's assistance to SCB

Fisheries Limited in my 1998 and 1999 Annual Reports to the House of Assembly. The purpose of this year's report item is to conclude my review of Government's involvement with this company.

Government's involvement with SCB Fisheries Limited commenced in 1992 and was completed in June 2001. During that period SCB Fisheries Limited cost Government a total of $9.7 million as follows:

- $2.8 million balance of loan provided by Enterprise Newfoundland and Labrador Corporation;
- $6.5 million loan guarantee payout; and
- $400,000 out of court settlement.

Government will not recover any of this money.

3.18 Agriculture Safety Nets

The Farm Business and Evaluation Division in the Department of Forest Resources and Agrifoods provides financial and management services for the development of the agricultural industry in the Province. It delivers farm management counselling and training programs, crop and livestock income insurance and other agriculture safety net programs, and other development assistance. During 2001, the Division's offices were moved to the Province's west coast as part of Government's efforts to regionalize services.

The largest expenditure in the Farm Business and Evaluation Division is in the Agriculture Safety Nets (ASN) activity. ASN is a 60/40 Federal and Provincial cost shared initiative which began in 1996 and which is intended to enhance long-term stability for the provincial agriculture industry. The original agreements expired in 2000, with a second set covering the 2000 to 2003 period. Expenditures are made by the Province with related revenue being recovered from the Federal Government for its share.

The majority of funding under ASN relates to the Agri-Food Innovation Program (e.g. for 2001, $2.3 million of the total $2.6 million for ASN related to the Innovation Program and for 2000, $2.7 million of the total $2.8 million was for this Program). Activities under this Program are designed to address research, development, marketing, value-added and diversification needs and to promote long-term stability of the agriculture and agrifoods sectors.

Our review, which focused on expenditures under the Agri-Food Innovation Program, disclosed the following:

- Information obtained at the Department of Forest Resources and Agrifoods indicated that priority for funding under the Agri-Food Innovation Program was to be directed to individual agricultural producers in the Province. Our review disclosed that approved projects have not been restricted to activities which provide funding directly to producers, but in many cases were used by the Department to fund Departmental activities or to fund non-producers such as operational funding for agriculture related provincial organizations. For example, in both years reviewed, more than 50% of project funding was used for Government sponsored projects with a further 10% used for non-producers. This results in less than 40% of funding being available directly to producers.

- The average expenditure for funded projects in the three applicant categories varied significantly. The average payment per project to individual producers in 2000-01 was $6,000 compared to $26,000 for Government and $13,000 for non-producers.

- The Department contravened the *Financial Administration Act* by purchasing four vehicles for divisions which did not have the funding to do so. Payments for these vehicles were inappropriately charged to the ASN activity.

- Our review identified numerous instances where the Department did not comply with the Federal/Provincial

Agreement and their own policies in the approval of projects, the payment of funds and the monitoring of projects. For example, many projects were funded without being approved by the Management Committee. As well, projects were identified which were questionable as to their eligibility for Program funding. As a result, controls over expenditures were not adequate.

- Reasons provided for rejection or deferral of applications for funding included references to limited funding being available to provide the assistance requested. Other reasons included the fact that previous contributions had been made to the applicant. This reasoning is in contrast to the actions taken later by the Department in transferring available funding from ASN for use for other Departmental activities and through charging expenditures for other Divisions directly to the ASN activity. There was no indication that applications for funding which had been rejected or deferred earlier due to lack of available Program funding, were reassessed prior to these transfers being made.

- The Department does not prepare an annual report relating to ASN activities. While the Department has developed a database of approved projects, the information maintained in this database does not provide evaluative information on the degree of success of the Program in relation to its objectives.

3.19 Fire Suppression and Communications Expenditures

The Department of Forest Resources and Agrifoods is responsible for the management of all forest and agricultural activities of the Province. In each of the past three years the Department's expenditures have exceeded those originally budgeted. In total the Department's gross expenditure of $138.4 million for these three years exceeded its original budget of $127.2 million by $11.2 million.

For the fiscal years 1999 to 2001, cost overruns in the Fire

Suppression and Communications program was the major factor in the Department's increased expenditure. From 1999 to 2001, the Fire Suppression and Communications program accounted for approximately $9.3 million or 83% of the $11.2 million increase in expenditures over the original estimates.

Our review indicated that $565,000 or 63% of the supplies expenditure of $895,000 was made from December 2000 to March 2001, after the normal fire season from mid-April to mid-September. Some of this money was used to buy items such as ATVs, boats, motors, and trailers during the latter part of March 2001 which is the last month of the fiscal year. It is questionable whether such expenditures could be regarded as emergency fire suppression costs for 2000-01.

The Department contravened the *Financial Administration Act* by purchasing equipment from funds provided by the Legislature for supplies.

The Department also contravened the *Financial Administration Act* by purchasing equipment for wildlife compliance from funds provided by the Legislature for supplies for the Fire Suppression and Communications program.

3.20 Direct Program Costs - Child Welfare Program

Effective 1 April 1998, Government transferred responsibility for the previous Child Welfare Program from the Department of Human Resources and Employment to the Department of Health and Community Services. Government directed that the direct client service portion of the program be integrated and delivered by the Province's four health and community services boards and as separate components of the Grenfell Regional Health Services Board and the Health Labrador Corporation.

The Child, Youth and Family Services Program delivered by Health and Community Services - St. John's Region (the Board) is responsible for the provision of protection and support services to children, youth and their families in the greater St. John's region from seven locations encompassing Conception Bay

South in the North to Ferryland in the South and including Bell Island.

Our review disclosed that payments made by Health and Community Services - St. John's Region are not always properly approved and supported. Specifically:

- Client files are often poorly organized, incomplete and not consistent regarding the documentation included therein. This makes it difficult to ensure that there is sufficient documentation to support payments made to or on behalf of clients.

- The Board is not adequately reviewing expenditure summaries to ensure that all payments are legitimate. Our audit identified $99,295 paid by the Board that actually belonged to another community health board.

- There are inadequate financial controls and procedures in place to ensure that only properly authorized expenditures occur. This has resulted in overpayments.

- The Board does not have a system in place to monitor, collect and report overpayments. One of the Board's offices had compiled a listing and sent out collection letters, but this listing of overpayments was incomplete and did not include potential overpayments for other offices in the region.

- In those instances where procedures have been implemented to address internal control weaknesses, they have not always been implemented in all of the Board offices.

Expenditures under the child welfare program, by their very nature, involve the payment of a large number of low dollar amounts to many suppliers. As a result, the Board should ensure that there are strong systems and controls in place over expenditure payments. Controls over expenditures would be improved if the Board had systems which could produce financial information by child showing details of payments on a comparative year basis. Furthermore, information should be produced showing total payments to foster parents and for what purpose. Given the cost of the child welfare programs and the significant increases experienced by some of the programs in recent years, this information would strengthen the monitoring and control of expenditures.

3.21 Monitoring Health and Community Services Boards

There are four health and community services boards in the Province comprised of St. John's, Eastern, Central and Western Regions. Each of these boards has local offices throughout the Province. Health and community services in Northern Newfoundland and Labrador are administered as separate components of the Grenfell Regional Health Services Board and the Health Labrador Corporation.

The health and community services boards provide traditional community health services including health promotion and protection, mental health services, continuing care, and immunization services. In addition, community service programs including child welfare, community and corrective services, and family rehabilitative services, are delivered under the health and community services boards.

The financial position of the four community services boards has been deteriorating over the past several years. In an effort to control operating deficits, boards have implemented changes to reduce costs and Government has provided additional funding. As a part of our audit work, we continue to monitor the financial position and results of operations of the four community services boards.

Our review disclosed that the financial position and operating results of the four health and community services boards remained in poor condition in 2000-01. The total net liabilities of the four boards increased to $19.8 million at 31 March 2001, from $9.2 million at 31 March 2000. These net liabilities will eventually have to be funded by Government.

Although Government provided $162.1 million in funding to the boards in 2000-01, compared to $148.6 million in 1999-00, the four boards incurred operating deficits totalling $11.7 million in 2000-01. These deficits indicate a further deterioration in operating results compared to the $4.6 million operating deficit incurred by the four boards in 1999-00.

3.22 Monitoring Hospital Boards

From 1 November 1994 to 1 January 1996 the Government of Newfoundland and Labrador established eight regional health care institutions boards to administer health care facilities in Newfoundland and Labrador. These boards took over the facilities previously administered by many small local boards.

The financial position of the eight hospital boards has been deteriorating over the past several years. In an effort to control operating deficits, boards have implemented changes to reduce costs and Government has provided additional funding. As a part of our audit work, we continue to monitor the financial position and results of operations of the eight hospital boards.

Our review disclosed that the financial position of the eight hospital boards is continuing to deteriorate although funding has increased substantially. The net liabilities of the eight boards has increased from $286.0 million at 31 March 2000 to $362.2 million at 31 March 2001. These net liabilities will eventually have to be funded by Government.

Government funding provided to the boards increased from $645.6 million in 1999-00 to $682.3 million in 2000-01. Although additional funding was provided, these boards still reported current year operating deficits totalling $60.5 million for the year ended 31 March 2001 compared to operating deficits totalling $33.6 million in 1999-00.

3.23 Community Corrections

Community Corrections is a branch of the Adult Corrections Division of the Department of Justice. This Branch is responsible for providing pre-sentence investigation services to assist the Court in determining the most appropriate sentence and to administer community-based sentencing alternatives through which the Courts may satisfy a range of sentencing objectives. Community Corrections has 14 regional offices located throughout the Province with a total staff complement of 48. In addition, there are 14 paraprofessional Assistant Probation Officers who are hired on a fee-for-service basis to provide services to remote communities which are otherwise difficult to service.

Although there is a Policy Manual at the Department, it does not reflect all current practices. The Manual is currently being reviewed and updated. Our review of compliance with policies and procedures indicated the following:

- Probation is a community based sentence imposed by the Court covering a period of time to a maximum of three years. A conditional sentence is a sentencing option imposed by a judge as an alternative to incarceration. The conditional sentence order provides for offenders to serve an incarceral sentence in the community rather than in custody for a maximum period of two years less one day. This option only became available in 1996 as a result of Federal legislation. Offenders on either probation or a conditional sentence are assessed by the Probation Officer and can be assessed as low risk, medium risk or high risk.

  Our review indicated that the Department is not complying with its policies regarding the assessment of offender risk, offenders are not being visited and/or monitored as required, and the data from the computerized system being used for offender risk assessment is producing results inconsistent with policy. As a result, some offenders who have been assessed as high risk are in the community without the required supervision.

- Community Corrections policy requires that a case plan be completed within 30 working days of the initial interview with the offender. The case plan outlines how the terms of a probation order or a conditional sentence order will be carried out and the counseling requirements and programs that may be required to rehabilitate the offender. Our review indicated that case plans are not always completed as required by Departmental policy.

- Community Corrections policy requires that the Chief Probation Officer carry out operational audits on regional offices, three times per year. During these audits the Chief Probation Officer would review case files to ensure that activities reflect Community Corrections policies and procedures, as well as utilizing appropriate methods of intervention to achieve planned outcomes. These audits are not being carried out. Much of this information is in the Community Corrections Information System but the Chief Probation Officer can not access the other regions from Head Office.

- Community Corrections policy, for the electronic monitoring program, requires that only offenders who have been assessed as medium risk and non-violent can be placed on this program. We found that of 478 offenders who were on the program from 1994 to 31 March 2000, 186 had been classified as high risk.

- Electronic Monitoring policy requires a minimum of 2 visits per 8 day period with offenders by Corrections staff. In all of the case files examined this level of contact was not achieved.

- The Community Corrections Branch has 33 electronic monitoring devices. The Branch is required to keep an inventory of these devices. When we performed an inventory count in October 2000, the Branch could not locate 9 of the devices.

- The number of offenders being placed on electronic monitoring is declining. Initially, there were 50 monitoring devices in inventory which has since been reduced to 33. The average daily usage for 2000-01 was 17 units. When we performed an inventory count in October 2000, there were 11 offenders on electronic monitoring. The Community Corrections Branch has excess capacity in monitoring units. These devices cost the Branch $3,825 per month in rental fees.

The Community Corrections Branch provides community-based intervention programs, in such areas as anger management, sex offenders and male batterers, to offenders to assist in their safe reintegration into society such that the risk of re-offending is reduced. The Branch has two contracts at an annual cost of $456,000, to provide programs in both St. John's ($356,000) and on the West coast of the Province ($100,000). Our review of these contracts disclosed there were no proposal calls and they have not been approved by Cabinet as required by Government's policy on the hiring of consultants. As well, instances were identified where the minimum number of contracted hours were not provided by the contractor. Also, although the contract in St. John's has been renewed since 1997-98 at the same cost of $356,000, our review indicated that the number of hours of service provided under the contract has been decreasing.

The Community Corrections Information System operated by Community Corrections to manage case files is not adequate to meet their needs.

3.24 Royal Newfoundland Constabulary - Firearms Review

The Royal Newfoundland Constabulary was established in 1871. The mission of the Royal Newfoundland Constabulary is to work with communities in Newfoundland and Labrador to foster safe communities by providing quality, professional, accessible, timely and fair police services to all. The Royal Newfoundland Constabulary is responsible for policing three regions of the Province - the North East Avalon, Corner Brook and Labrador West. The population of these regions is approximately 205,000 (1996 census). In providing these services, the Royal Newfoundland Constabulary currently employs 304 police members and 82 civilian staff.

In 1998, the Royal Newfoundland Constabulary were permitted to wear firearms as part of their regular uniform. The Select Committee of the House of Assembly which recommended the new arming policy also recommended that a firearms audit be performed annually and submitted to the House of Assembly. As a result, this is our third annual firearms audit.

In our two previous audits we reviewed the firearms policy of the Royal Newfoundland Constabulary and reported a number of issues which had to be addressed. Since the policy was new, we expected that deficiencies would be identified in the early years and that the Royal Newfoundland Constabulary would strengthen its processes in response to the deficiencies that we had identified. Given the serious repercussions that could result from the use of firearms, it is critical that the Royal Newfoundland Constabulary have adequate systems in place to protect the interests of both the Royal Newfoundland Constabulary members and the public.

The Royal Newfoundland Constabulary has established policies to provide for the management and control of its firearms and ammunition. The Constabulary has, for the most part, made improvements since 1998 regarding the management and control of its firearms and ammunition. However, our review for 2001 identified a number of issues which should be addressed. The most serious issues are as follows:

- We identified 10 members of the Royal Newfoundland Constabulary who had each others firearms stored in their firearm locker. These are very serious infractions. Should a firearm be discharged, there is a possibility that the discharging of the firearm could be associated with an incorrect Royal Newfoundland Constabulary member.

- Grips are being installed on firearms making it impossible to readily read the serial number. As a result, during inspections it is not possible to check serial numbers and agree it to Royal Newfoundland Constabulary records to ensure that the correct member is in possession of the correct firearm. For example, we removed a few of these grips and identified 1 instance (included in the 10 above) where the serial number on the firearm confirmed that a

Royal Newfoundland Constabulary member did not have the firearm which has been signed out to them. It is a concern that members with a firearm other than that assigned to them could go undetected during monthly firearm locker inspections.

- Although Royal Newfoundland Constabulary policy requires that all members receive, on an annual basis, a requalification for the use of firearms, we found that 114 members had not received the required training.

3.25 Prospectors and Industry Assistance Program

The Mineral Development Division within the Department of Mines and Energy is responsible for the technical monitoring and analysis of the mining industry, the development and implementation of mineral policy, evaluations of potential mining properties, development and enforcement of the *Mining Act* and management of incentive programs for exploration and development.

We reviewed the Prospectors and Industry Assistance Program which consists of three main components: the Junior Company Exploration Assistance Program; the Prospectors Assistance Program; and the Dimension Stone Incentive Program.

Our review disclosed the following:

- Weaknesses were identified with respect to project controls relating to: assessments of project proposals; monitoring of approved projects; evaluations of completed projects; and review of support for claimed project expenditures.

- The database maintained by the Department is incomplete. Project information is not being adequately tracked for project and Program monitoring purposes.

- Irregularities were identified with respect to approved projects for one applicant. This applicant had three projects approved under the Dimension Stone Incentive Program and two projects approved under the Junior Company

PROVINCE OF NEWFOUNDLAND AND LABRADOR

REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF ASSEMBLY
ON THE AUDIT OF
THE FINANCIAL STATEMENTS OF THE PROVINCE
for the
YEAR ENDED
31 MARCH 2001

PRINTED UNDER THE AUTHORITY OF THE HOUSE OF ASSEMBLY
ST. JOHN'S, NEWFOUNDLAND

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Office of the Auditor General

31 January 2002

The Honourable Lloyd Snow, M.H.A.
Speaker
House of Assembly

Dear Sir:

In compliance with the *Auditor General Act*, I have the honour to submit herewith, for transmission to the House of Assembly, my Report on the Audit of the Financial Statements of the Province for the year ended 31 March 2001.

Respectfully submitted,

E. Marshall

ELIZABETH MARSHALL, C.A.
Auditor General

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Exploration Assistance Program. A total of $190,000 was approved for these contracts.

A review of projects approved for this applicant revealed the following:

- inadequate application form review and assessment;
- inadequate quotations obtained in support of proposed expenditures, including serious concerns expressed by the Department relating to authenticity of quotations presented by the applicant. These concerns related to an application for a project which was received from the applicant in July 2000. Subsequent correspondence from the Department dated in July disclosed that this application could not be processed because the tendering process was "flawed/incomplete". In requesting the required 2 quotes for goods/services, the applicant indicated that quotation requests had been faxed to two unrelated companies. However, the Department determined that one company did not exist while no quotation request had ever been forwarded to the other company by the applicant as had been represented in the application. Despite the serious concerns expressed by the Department relating to authenticity of information provided by the applicant, the Department subsequently approved $44,000 in funding for this project;
- inadequate site visits completed by the Department;
- inadequate reporting by the applicant;
- inadequate project evaluations completed by the Department;
- lack of inspection or audit of the applicant's records; and
- inadequate support for claimed expenditures.

3.26 Newfoundland and Labrador Film Development Corporation

The Newfoundland and Labrador Film Development Corporation (the Corporation) was incorporated in October 1997. The purpose of the Corporation is to promote the development of, and to stimulate employment and investment in, the Newfoundland film and video industry by providing financial and other assistance. The Corporation's Board of Directors is appointed by Government.

When Cabinet authorized the establishment of the Newfoundland and Labrador Film Development Corporation in 1996, it directed that the Corporation was to have an initial five year mandate *"with a complete review to be undertaken at the end of three years to ensure adequate progress towards the policy objectives"*. Since 1996, $4 million in funding has been provided to the Corporation; however, the review as directed by Cabinet has never been undertaken. We are recommending that this review be completed to determine whether the objectives of Government are being met.

Our review of the Corporation identified some other areas that require improvement and these have been reported to the Corporation. At the time of our audit, the Corporation had taken action to address our concerns.

3.27 Special Celebrations Corporation of Newfoundland and Labrador Inc.

The Special Celebrations Corporation of Newfoundland and Labrador, Inc. was incorporated under the *Corporations Act* on 27 August 1998. It was established to plan, organize, manage and supervise tourism special events for the Government of Newfoundland and Labrador. During the course of the financial statement audit of the Corporation for the year ended 31 March 2001 significant concerns were noted with the Corporation's non-compliance with Government's *Guidelines Covering the Hiring of External Consultants* and the *Public Tender Act*.

Concerns related to the hiring of consultants included:

- On 25 February 2000, the Corporation entered into a contract with a company for the production and fabrication of the Viking Museum Exhibit for a total value of $443,686. Our review of this contract indicated that Cabinet authorized the selection of this consultant as required by the *Guidelines*. As this contract is greater than $50,000, the *Guidelines* also require that prior to the selection of the consultant, the Corporation conduct a public call for proposals; however, the Corporation did not conduct any call for proposals.

- During the year ended 31 March 2001, a consultant was hired for a contract up to a maximum of $80,000. This contract was not a fee for service agreement and thus the *Guidelines* require that the Corporation conduct a public proposal call. Our review indicated that the Corporation did not conduct any call for proposals and therefore, did not comply with the *Guidelines*.

- During the year ended 31 March 2001, a consultant was hired under five separate contracts for a total value of $107,500. Although each contract was under $50,000, the Corporation did not obtain three proposals as required by the *Guidelines*. This contract was not a fee for service agreement nor could officials of the Corporation provide any support that there were any time constraints considerations or that there were not a sufficient number of consultants that provide this service.

- $9,360 was paid to a consultant under a ten week contract. This contract was extended on two consecutive occasions for an additional 48 weeks (up to 31 August 2001). The total contract covered a 58 week period with a total contract value of $52,560 plus expenses. The Corporation did not obtain any proposals for either the initial contract or the two extensions. This contract was not a fee for service agreement nor could officials of the Corporation provide any support that there were any time constraints or that there were not a sufficient number of consultants that provide this service.

- $10,000 was paid to one consultant without three proposals being obtained. This contract was not a fee for service agreement nor could officials of the Corporation provide any support that there were any time constraints or that there were not a sufficient number of consultants that provide this service.

Concerns related to the Corporation's non-compliance with the *Public Tender Act* included:

- On 25 February 2000, and as indicated previously in this report, the Corporation entered into a professional services contract with a company for the production and fabrication of the Viking Museum Exhibit for a total value of $443,686. On 26 April 2000, an amendment was added to the original contract to include the production of custom shipping crates for an additional $33,939. The production of custom shipping crates, however, involves the construction of a work and is, therefore, subject to the *Public Tender Act*. As the Corporation did not call public tenders for this additional contract, it did not comply with the *Public Tender Act*.

- During testing of expenditure, a transaction in the amount of $123,478 was reviewed which represented a payment to a vendor for the mobile facility to feed the satellite uplink for the televising of the landing of the Islendingur at L'Anse Aux Meadows in July 2000. Although the Corporation did not call for public tenders for this contract because it considered the vendor to be the only source available to provide the service in the time frame required, our review indicated that there are a number of vendors that provide this type of service. Officials of the Corporation could not provide any evidence that any contact had been made with any other potential vendors.

  It was further identified that there was no agreement between the vendor and the Corporation defining contract terms including an established price. While the service was provided between the 24th and 28th of July 2000 and the related invoice was received on 18 August 2000, the purchase order which authorizes the service was dated the 25th of August 2000. As a result, the service was provided without proper purchasing authority and without the required commitment of funds.

3.28 Coastal Labrador Marine Services

In April 1997, the Province assumed responsibility for the coastal Labrador marine service and in December 1997 received $347 million from the Federal Government to fund the service in perpetuity. Effective 1 April 1997, the Province contracted Marine Atlantic to provide this service to 31 December 1997. Subsequent to this date, the Province contracted with a private operator to provide this service. In accordance with the contract awarded in April 1998, the Province provides its two marine vessels, the MV Sir Robert Bond and the MV Northern Ranger, to the contractor, and the contractor is responsible for the operation of the two vessels.

The actual cost of operating the service is significantly higher than the estimated cost prepared by the Department in November 1998. In 1998 the Department estimated that the cost of operating the Labrador marine services between 1 April 1998 and 31 March 2001 would be $51.8 million. However, actual costs to 31 March 2001 totalled $62.5 million. The most significant increase occurred in 2000-01 for which the Department estimated costs of $12.6 million in November 1998 while actual costs were $21.0 million.

Our review disclosed the following:

- the Department contravened the *Public Tender Act* and paid the contractor $990,000 for refit work which was not tendered and not provided for under the contract;

- the Department does not have adequate procedures in place to ensure that freight handling subsidy payments to the contractor of approximately $1.0 million each year are in accordance with the terms of the contract; and

- the Department does not have adequate procedures in place to ensure that the contractor is complying with the terms of the contract related to the quality of the service to be provided.

We also have concerns regarding payments made during refit periods.

3.29 Vessel Replacement Plans

The Department of Works, Services and Transportation is responsible for the Province's ferry operations. During the 2000-01 fiscal year, the Province spent $40.0 million on ferry operations throughout Newfoundland and Labrador and collected $23.3 million in revenues. At 31 March 2001, the Province's ferry operations included 21 vessels, 20 of which are serving 16 routes around the Island and coastal Labrador, and one vessel which is undergoing major refit.

We completed a review of the Department's marine vessel replacement plans including a review of the acquisition and refit costs for the Province's most recently acquired vessel, the Ahelaid, which was purchased in 1999. The results of our review were as follows:

- The Province owns 12 of the 21 marine vessels, ranging in age from 11 years to 38 years, with an average age of 24 years. These vessels continue to deteriorate. Given that the normal life expectancy of a marine vessel is about 25 years, significant expenditures are required to upgrade or replace these vessels.

  Although a Government commissioned study in 1993 recommended that the Province spend $18 million to $25 million over the following 10 years to upgrade the vessels, this was not done. With the exception of the acquisition of the Captain Earl Winsor and the Ahelaid, there has not been a significant upgrade of the Province's fleet of marine vessels since 1993.

  This matter was reported to the House of Assembly in my 2000 Annual Report. Discussions with Government officials indicated that this matter has still not been addressed and there are no definitive plans to replace and renew Government's fleet of 12 marine vessels. As a result, Government will be faced with the need to provide significant funds in the near future to refurbish its marine vessels.

- The most recently acquired vessel is the Ahelaid which was purchased in 1999. At that time, the Department estimated that the cost to purchase and refit the vessel was $2.9 million. It was expected that the vessel would be in service during the fiscal year 2001-02.

  The Ahelaid arrived in St. John's in May 1999. From that time until 31 July 2001, the Department has spent $3.9 million to purchase and refit the vessel and expects to spend an additional $2.6 million to complete the refit bringing the total estimated cost to purchase and refit the Ahelaid for service to $6.5 million. In addition, the Department estimates that the Ahelaid will not be ready for service until the fiscal year 2002-03.

3.30 Government Purchasing Agency

The Government Purchasing Agency was originally created in 1973 by Section 49 of the Department of *Public Works and Services Act*. The *Act* provided that the Government Purchasing Agency's primary duties were to acquire all services that were required by the departments and agencies of the Crown. The *Act* granted the Agency the authority to delegate purchasing authority to the various departments and agencies if the Director of Purchases is satisfied that it is in the interest of efficiency to do so. The *Act* also required that the Agency invite tenders for services except in certain specific circumstances.

From 1973 to 1983, the Government Purchasing Agency was independent of Government departments and was attached to the Department of Public Works and Services for administrative purposes only. However, in 1983 as a result of an amendment in the *Act*, the Government Purchasing Agency was made a part of the Department of Public Works and Services and later, as a result of Government re-organization, was made a part of the Department of Works, Services and Transportation. This 1983 amendment resulted in a loss of independence for the Government Purchasing Agency.

The role of the Government Purchasing Agency is to be responsible for all purchases on behalf of government departments and if deemed efficient on behalf of all agencies of the Crown. The Agency may delegate purchasing authority to departments and agencies if it deems it efficient to do so. However, the Agency is responsible to oversee and monitor the purchasing activities of these entities. As part of its responsibilities, the Agency must prepare a monthly Public Tender Exception Report for the Minister of Works, Services and Transportation for tabling in the House of Assembly.

Our work indicated that approximately 63% of expenditures made by the various Government departments for supplies and services and 65% of the public tender exceptions tabled in the House of Assembly were purchases of the Department of Works, Services and Transportation. This indicates that the great majority of the work of the Government Purchasing Agency is centered around the Department of Works, Services and Transportation, of which it is a part. The fact that the Agency is a part of the Department of Works, Services and Transportation questions whether the Agency can function in a manner which is independent of the Department.

The Government Purchasing Agency is required to assess, critique and report on purchases made by all departments and other entities required to comply with the *Public Tender Act*, including the Department of Works, Services and Transportation. To accomplish this, it must be in a position of independence.

Chapter 4

Update on Prior Years' Report Items

This year we continued a process whereby our recommendations are monitored and the results reported within two years of the original report date. This chapter provides the results of this monitoring process relating to the recommendations contained in 1999 and prior *Reports of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies.*

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CHAPTER

1

AUDITOR GENERAL'S REPORT

1.1 Introduction

This report presents information on the Province's financial statements. The Auditor's Report on the financial statements is presented for the information of the readers. Comments are also provided on the accounting policies used in the preparation of the financial statements and how they compare to the recommendations of the Canadian Institute of Chartered Accountants, which recommends the standards for good practice in financial reporting, accounting and auditing in the public sector.

The Consolidated Summary Financial Statements of the Province provide the most complete information about the operating results and financial position of the Province. These statements consolidate the financial position and results of operation of the Consolidated Revenue Fund, which accounts for the financial activities of central government and the departments, with those of other Government entities. These statements include the operations of all government departments, of which there were 20 in 2000-2001, the Legislature, 8 Health Care Corporations, 4 Health and Community Services Boards, 11 School Boards and 43 Crown agencies. These 43 Crown agencies do not include Memorial University of Newfoundland and the Workplace Health, Safety and Compensation Commission.

This report provides information on the Consolidated Summary Financial Statements and presents a summary of certain financial information contained in these financial statements and the Consolidated Revenue Fund Financial Statements.

1.2 Legislative Requirements Relating to the Financial Statements of the Province

In accordance with section 59 of the *Financial Administration Act*, Government prepares a document called the *Public Accounts*. This document includes the Consolidated Summary Financial Statements of the Province and the Consolidated Revenue Fund Financial Statements, and in accordance with the *Act* must show:

- the state of the public debt;
- the revenue and expenditure;
- all compromises, remissions, refunds and amounts written off; and
- those other accounts and statements that may under good accounting practice be required to show the financial position of the Province at the end of the fiscal year.

Treasury Board prescribes the manner and form in which the Public Accounts of the Province are prepared, as provided for under the *Act*.

Section 11 of the *Auditor General Act* requires that the Auditor General express an opinion as to whether the financial statements included in the Public Accounts present fairly the financial position, results of operations and changes in the financial position of the Province in accordance with the disclosed accounting policies of the Provincial Government and on a basis consistent with that of the preceding year, together with reservations the Auditor General may have.

For the year ended 31 March 2001, the Public Accounts contain the Consolidated Summary Financial Statements, the Auditor General's Report on those financial statements, the Consolidated Revenue Fund Financial Statements, the Auditor General's Report on those financial statements, and other information which Government is required to include or chooses to include.

Since the recommendations of the Canadian Institute of Chartered Accountants relating to financial reporting by governments have now become generally accepted within Canada, section 59 of the *Financial Administration Act* requires compliance with these recommendations to properly present the financial position of the Province at the end of the fiscal year.

1.3 Auditor's Report on the Financial Statements of the Province

The Auditor's Report on the Consolidated Summary Financial Statements of the Province for the year ended 31 March 2001 reads as follows:

To the House of Assembly
Province of Newfoundland

I have audited the consolidated summary statement of financial position of the Province of Newfoundland as at 31 March 2001 and the consolidated summary statements of revenue and expenditure, net debt and changes in financial position for the year then ended. These financial statements are the responsibility of Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles *used and significant estimates made by Government, as well as evaluating the overall financial statement presentation.*

In my opinion, these consolidated summary financial statements present fairly, in all material respects, the financial position of the Province of Newfoundland as at 31 March 2001 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting policies disclosed in Note 1 to the consolidated summary financial statements applied on a basis consistent with that of the preceding year.

Elizabeth Marshall, C.A.
Auditor General

St. John's, Newfoundland
12 October 2001

1.4 Government's Results of Operations

For the year ended 31 March 2001, Government's Consolidated Summary Financial Statements reported a deficit of $349.7 million compared to the 1999-2000 reported deficit of $269.0 million.

CHAPTER
2
COMMENTS ON GOVERNMENT'S FINANCIAL REPORTING

2.1 Basis of Accounting for Revenues

Government currently records certain revenues on a modified accrual basis. For example, government records revenue from the Government of Canada tax equalization payments and personal and corporate income taxes based on regular entitlements for the current year. As adjustments to regular entitlements are subject to future revisions, the revisions are reported in those future years when the adjustments become known. Government does not attempt to provide a reasonable estimate for these future revisions in the periods to which these revisions relate. In addition, revenue from significant provincial taxes, such as Gasoline Tax and Tobacco Tax, are only recorded for those amounts assessed and those taxes collected by vendors up to 31 March but not remitted by that date. Government's financial reporting would be improved if all revenues were recorded on a full accrual basis.

Recommendation

Government should consider recording its revenues on a full accrual basis.

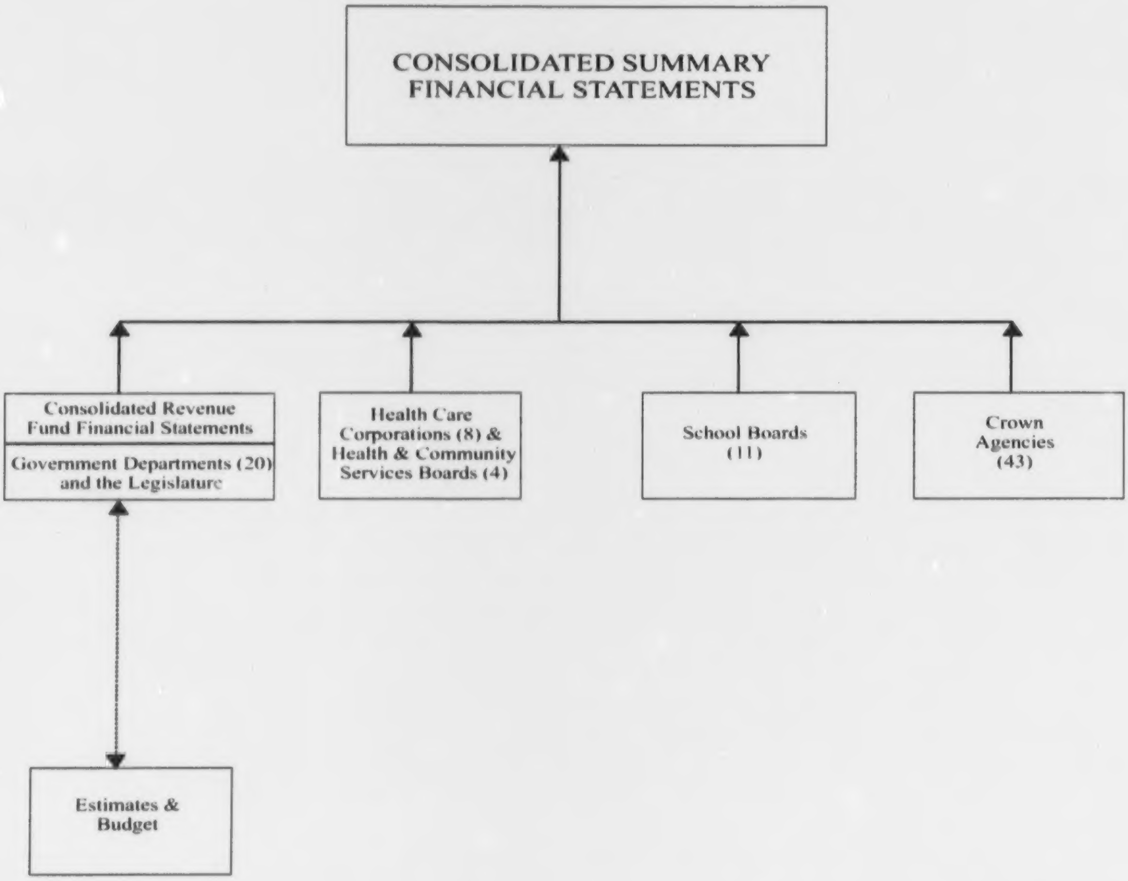
2.2 Comparative Budget Figures

The budget or financial planning information published by Government focuses on an incomplete picture. This planning information is not complete because the budget is prepared on a cash basis of accounting and therefore, does not include many significant accounting adjustments or transactions required to provide the actual results of Government operations. Specifically excluded are a number of significant transactions including foreign exchange losses, bad debts, and increases in Government's unfunded pension liability.

In addition, as indicated in Figure 1, the financial planning information published by Government focuses on its finances as set out in one government fund called the Consolidated Revenue Fund. That picture is not complete because other Government activity takes place outside of that Fund. This activity takes place in organizations including the Health Care Sector, the Education Sector, Newfoundland and Labrador Hydro and other organizations which are owned and controlled by, and are accountable to, Government.

Figure 1

Organizations Included in the Consolidated Summary Financial Statements
31 March 2001


CONSOLIDATED SUMMARY FINANCIAL STATEMENTS
Consolidated Revenue Fund Financial Statements
Government Departments (20) and the Legislature
Health Care Corporations (8) & Health & Community Services Boards (4)
School Boards (11)
Crown Agencies (43)
Estimates & Budget

Consolidated summary budgets for government are recommended by the Canadian Institute of Chartered Accountants, the professional body which recommends standards for financial reporting in the public sector. For the year ended 31 March 2001, the Federal Government and the Provinces of Nova Scotia, New Brunswick, Quebec, Ontario and Alberta published consolidated summary budgets.

Recommendation

For Government's financial planning to be focused on a complete picture of its finances, the House of Assembly should be presented with a budget prepared on the accrual basis of accounting (i.e. including all adjustments required by generally accepted accounting practices) and the budget should include all Government entities. This budget would then serve as a means of holding Government accountable for its activities in any given year.

2.3 Government Reporting Entity

The Canadian Institute of Chartered Accountants has developed criteria for governments to follow in the preparation of consolidated summary financial statements. These criteria require the Province's Consolidated Summary Financial Statements to include all organizations that are accountable for the administration of their financial affairs and resources either to a minister of government or directly to the legislature, and that are owned or controlled by government. A detailed listing of organizations and enterprises included is shown in a schedule to the Consolidated Summary Financial Statements of the Province.

The Consolidated Summary Financial Statements include organizations and enterprises that meet the criteria for inclusion, with the exception of the Workplace Health, Safety and Compensation Commission and Memorial University of Newfoundland, both of which meet the criteria.

Our review of the *Workplace Health, Safety and Compensation Act* indicates the Commission is accountable to and controlled by Government. The *Act*, however, does not deal with ownership of the Commission and responsibility for its unfunded liability, which at 31 December 2000 was $202.3 million. The criteria of accountability and control are sufficient to warrant inclusion in the reporting entity. A note to the Schedule of Trust Accounts in the Consolidated Summary Financial Statements for the year ended 31 March 2001 indicated that Government considered the Commission to be a form of trust. This note disclosed information on the Commission's deficit and unfunded liability for the year ended 31 December 2000. The provinces of Saskatchewan, Manitoba, Quebec and New Brunswick include their workers' compensation boards in their government's financial statements. Prince Edward Island provides note disclosure and in British Columbia, Ontario and Nova Scotia it is structured as a trust and is therefore excluded.

Our review of the *Memorial University Act* indicates that the University is accountable to and controlled by Government. The Province of Manitoba has included two of its four universities in the government reporting entity. While other provinces have not included universities in their consolidated summary financial statements, in British Columbia, for the past several years, the Auditor General expressed a qualified opinion regarding the decision by the Government of that Province to reverse the prior inclusion of universities in its Summary Financial Statements. In most other jurisdictions, Auditors General have expressed concerns similar to ours relating to the exclusion of universities from the government reporting entity.

Recommendation

The Workplace Health, Safety and Compensation Commission and the Memorial University of Newfoundland should be included in the Government reporting entity.

2.4 Tangible Capital Assets

In September 1997, the Canadian Institute of Chartered Accountants (CICA) issued the accounting and reporting standards for the tangible capital assets of governments. Tangible capital assets include such items as roads, buildings, vehicles, equipment, land, water systems, aircraft, computer hardware and software, dams, canals and bridges.

In accordance with these accounting and reporting standards, tangible capital assets should be accounted for and reported as assets on a Statement of Tangible Capital Assets at cost. For each major category of tangible capital assets, the Statement of Tangible Capital Assets should disclose cost, additions, disposals, the amount of any write-downs in the period, the amount of amortization of the costs of tangible capital assets for the period, accumulated amortization, the amortization method and rate used, and the net book value.

As provided by CICA standards, governments may report their financial results on either the expense basis or expenditure basis of accounting. The choice of the accounting basis affects how tangible capital assets are accounted for and reported in governments' financial statements as indicated in Figure 1.

Figure 1

Tangible Capital Assets
Basis of Accounting

Expense Basis	Expenditure Basis
Cost of the asset is reported on the Statement of Financial Position.	Cost of the asset is reported only on the Statement of Tangible Capital Assets and not on the Statement of Financial Position.
Amortization is accounted for as an expense in the Statement of Operations.	Amortization is reported only on the Statement of Tangible Capital Assets and not on the Statement of Revenue and Expenditures.
The net write-down is accounted for as an expense in the Statement of Operations.	The write-down is reported only on the Statement of Tangible Capital Assets and not on the Statement of Revenue and Expenditure.
The difference between the proceeds on disposal and the net book value of the asset is accounted for as a revenue or expense in the Statement of Operation.	The net proceeds on disposal of an asset is accounted for as revenue in the Statement of Revenue and Expenditure.

Source: CICA Handbook

The Province reports its capital assets on the expenditure basis. As a result, tangible capital assets are currently not valued for presentation on the Statement of Financial Position in the Consolidated Revenue Fund Financial Statements but are expensed in the year of acquisition or construction. The Consolidated Revenue Fund Financial Statements do, however, include a Schedule of Tangible Capital Assets which provides information for various categories of tangible capital assets such as the estimated cost of additions and disposals, estimated useful life, annual and accumulated amortization, and net book value. This Schedule includes those tangible capital assets having an estimated individual historic cost in excess of $100,000; however, this information on assets is only prepared on an annual basis and the information disclosed in this Schedule at 31 March 2001 is not complete.

During the year, Government has continued its efforts to accumulate information on all of its tangible capital assets in order to comply with the CICA recommendations. In particular, Government implemented an accounting system to record information on its tangible capital assets and in November 2001, started to enter this information into the system. In addition, in October 2001, Government issued Tangible Capital Assets Policies and Guidelines to all of its departments. These guidelines included criteria on the definition of a capital asset and the relevant costs to include in this definition.

Recommendation

Government should continue with its efforts to improve the completeness and accuracy of its capital assets.

2.5 Periodic Financial Statements

Government's financial statements are an important component of its financial management system and should show the results of operations and its financial position on a periodic basis. Periodic financial statements are important to effectively monitor and control government operations. Currently, neither monthly nor quarterly financial statements are prepared by Government to determine its results of operations and its financial position on an on-going basis. Rather, Government only prepares annual financial statements.

In 1998-99, Government implemented the new Financial Management System which was expected to help address the concerns relating to periodic reporting. The Financial Management System included the following five core applications: budgeting, purchasing, accounts payable, accounts receivable, and general ledger. All core applications are fully operational, with the exception of the accounts receivable component in one department which is anticipated to become fully operational during 2001-02. During 2001-02, Government also implemented an accounting system to record information on its tangible capital assets and started to enter information into this system.

In addition to implementing the necessary accounting systems, Government also has a number of other initiatives underway to facilitate periodic reporting including structuring the Financial Management System to more easily summarize financial information, testing the output, and determining the manual adjustments that are required in preparing periodic financial statements.

Recommendation

Government should continue efforts to prepare periodic financial statements.

2.6 Timeliness of the Province's Financial Statements

In order for financial statements to be useful, they have to provide relevant and reliable information on a timely basis. Traditionally, Government has tabled its financial statements in December, nine months after the year end. In previous years, we recommended to Government that its financial statements be prepared on a more timely basis so as to provide the users with current financial information. This year, Government tabled its financial statements in November 2001. Figure 1 provides the dates that the Consolidated Summary Financial Statements for the years ended 31 March 1998, 1999, 2000, and 2001 were released for the 11 jurisdictions in Canada.

Figure 1

Consolidated Summary Financial Statements
Release Dates
Years Ended 31 March

Jurisdiction	1998	1999	2000	2001
Newfoundland	15 December 1998	14 December 1999	6 December 2000	28 November 2001
Nova Scotia	31 July 1998	15 December 1999	14 December 2000	16 November 2001
Prince Edward Island	17 December 1998	7 December 1999	20 December 2000	Not Released at Report Date
New Brunswick	24 September 1998	29 December 1999	25 October 2000	1 October 2001
Quebec	17 June 1999	28 March 2000	12 December 2000	Not Released at Report Date
Ontario	28 September 1998	15 October 1999	1 November 2000	21 September 2001
Manitoba	30 November 1998	29 November 1999	29 September 2000	28 September 2001
Saskatchewan	27 August 1998	28 October 1999	25 July 2000	20 July 2001
Alberta	24 June 1998	28 June 1999	29 June 2000	28 June 2001
British Columbia	20 October 1998	16 September 1999	15 August 2000	9 August 2001
Canada	15 October 1998	26 October 1999	28 September 2000	27 September 2001

We received the first draft of the Consolidated Summary Financial Statements for the year ended 31 March 2001 on 14 September 2001. Although it is desirable to improve the timeliness of this annual reporting, we recognize that the challenge is to continue to improve the timeliness without diminishing the completeness and accuracy of the financial information.

Recommendation

Government should continue efforts to improve the timeliness in preparing its financial statements.

CHAPTER

3

COMMENTS ON SELECTED FINANCIAL INFORMATION

3.1 Key Indicators of the State of a Government's Finances

The Canadian Institute of Chartered Accountants is the professional body that recommends standards for financial reporting, accounting and auditing in the public sector. It also initiates research studies on public sector accounting and auditing matters.

In 1997, the Canadian Institute of Chartered Accountants issued a Research Report entitled *Indicators of Government Financial Condition*. That report explored a variety of financial indicators and identified ten which it felt best describes the financial condition of a government. These ten indicators were categorized in terms of three elements of financial condition - sustainability, flexibility, and vulnerability.

(i) Sustainability

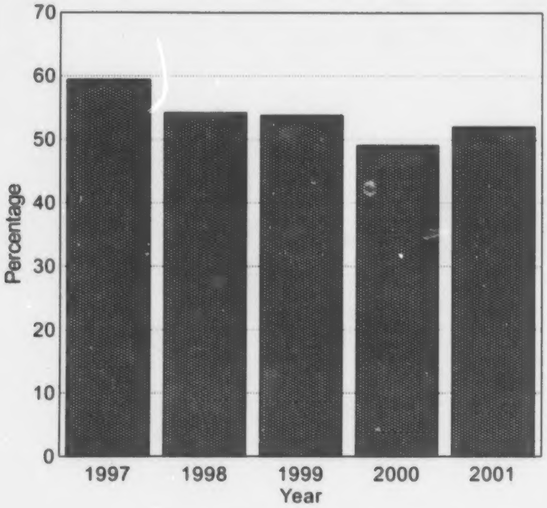
Sustainability is the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy. The research study proposes that users of a province's financial statements look at the long-term trends in two indicators:

- deficit to GDP; and
- debt to GDP.

For purposes of this Report, I have presented the debt to GDP ratio over the past five years. This ratio measures Government's debt position relative to the Province's economic base. If the Province's debt grows faster than the Provincial GDP, the ratio will increase and become less favorable, indicating that the debt burden is becoming more onerous. Conversely, a declining debt to GDP ratio is positive as it indicates that the debt burden is becoming less onerous. As shown in Figure 1, the debt to GDP ratio declined from 59.4% in 1997 to 49.1% in 2000. This indicates that, for that period, Government's debt burden became less onerous. In 2001, the debt to GDP ratio increased to 51.5%, indicating that Government's debt has grown faster during 2000-01 than the Provincial GDP and the debt burden has become more onerous.

Figure 1

**Consolidated Summary Financial Statements
Borrowings As a Percentage of Provincial GDP
Years Ended 31 March**



(ii) Flexibility

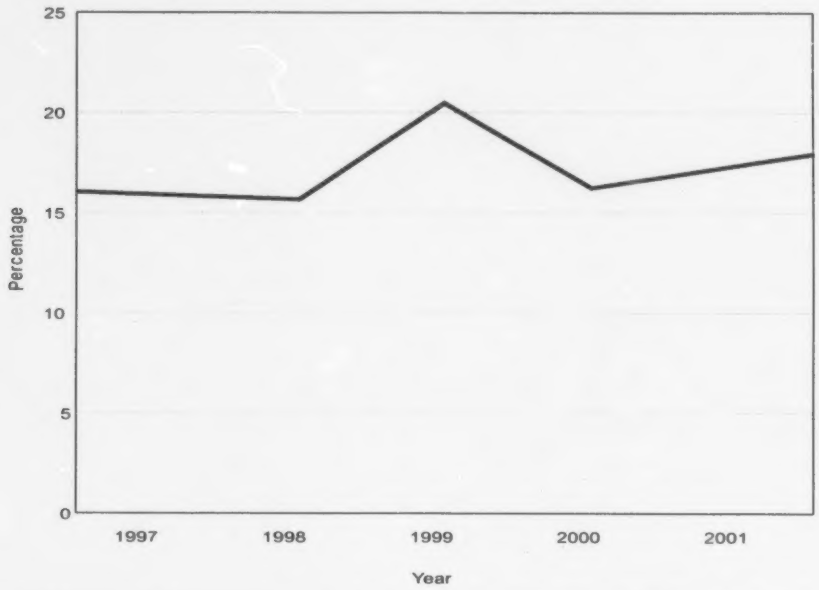
Flexibility is the degree to which a government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt. The research study proposes that users of a province's financial statements look at the long-term trends of three indicators:

- interest costs as a percentage of total revenue;
- changes in physical capital stock; and
- own source revenues to GDP.

For purposes of this Report, I have presented interest costs as a percentage of total revenue to indicate the extent to which Government revenues are used to pay the interest on the Province's debt. The Province's net debt at 31 March 2001 (excluding the unfunded pension liability) is $6.082 billion. As indicated in Figure 2, interest costs on borrowings as a percentage of total revenue declined from 1997 to 1998, increased in 1999, declined in 2000, and increased again in 2001. During this five year period, Government's interest costs as a percentage of total revenue has fluctated from a high of 20.5% to a low of 15.5%.

Figure 2

Consolidated Summary Financial Statements
Interest Costs on Borrowings
As a Percentage of Total Revenue
Years Ended 31 March



(iii) Vulnerability

Vulnerability is the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence. In 2000-2001, the Federal Government provided $1.757 billion of the Province's total revenue of $3.901 billion.

The research study proposed that users of a province's financial statements look at the long term trends of five indicators:

- government-to-government transfers compared to own source revenues;
- foreign-held government debt to net government debt;
- foreign currency debt to net government debt;
- current account balance to GDP; and

- total external debt to GDP.

For purposes of this Report, we present two indicators. Figure 3 indicates the percentage of Federal revenues compared to the Province's revenues from its own sources. As the figure indicates, over the past five years, Federal revenues ranged from a low of 43.0% in 1997 to a high of 50.5% in 1998. For 2001, Federal revenues accounted for 45.1% of the Province's total revenues which was a slight increase from 43.2% in 2000.

Figure 3

Consolidated Summary Financial Statements
Federal Revenues as a Percentage of Total Revenues
Years Ended 31 March

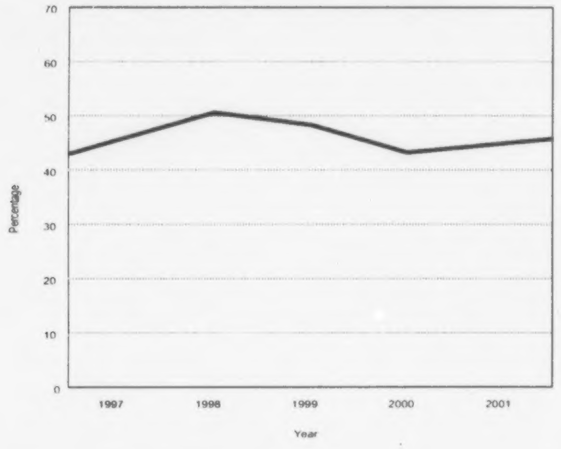
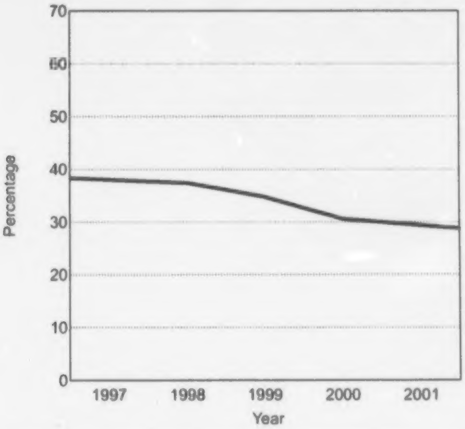


Figure 4 compares the Province's foreign currency debt to the Province's total debt, and indicates the degree of vulnerability which the Province has to currency swings. As the figure indicates, over the last five years, foreign currency debt as a percentage of total debt has been steadily decreasing from 38.1% in 1997 to 29.2% in 2001.

Figure 4

Consolidated Summary Financial Statements
Foreign Currency Debt as a Percentage of Total Debt
Years Ended 31 March



As at 31 March 2001 the Province has $2,151 million in foreign debt and as a result is vulnerable to currency swings. For example, if the value of the Canadian dollar decreases from 63 cents U.S. to 60 cents U.S., the $1,173 million in U.S. debt outstanding as at 31 March 2001, when translated into Canadian dollars, would increase by $93 million Canadian (i.e. from $1,863 million Canadian to $1,956 million Canadian). If the value of the Canadian dollar increases from 63 cents U.S. to 66 cents U.S., the $1,173 million in U.S. debt outstanding as at 31 March 2001, when translated into Canadian dollars, would decrease by $85 million Canadian (i.e.from $1,863 million Canadian to $1,778 million Canadian).

3.2 Amounts Owing to Government

Government policy requires that an accounts receivable system be maintained by Government departments, that departments ensure all receivables are properly recorded in their books of account and that collection be actively pursued.

Figure 1 outlines information on accounts and taxes receivable, and loans, advances and mortgages receivable, and the related allowances for doubtful accounts as disclosed in the Consolidated Revenue Fund Financial Statements for the years ended 31 March 1997 to 2001. This figure also includes the amount Government has written off during the past five years related to these accounts. In addition to the accounts written off in Figure 1, Government has also written off $8.4 million in tax forgiveness and $8.1 million in tax remissions in this period.

Comments on Selected Financial Information

Figure 1

Consolidated Revenue Fund
Accounts, Taxes, Loans, Advances and Mortgages Receivable
Years Ended 31 March
($000's)

	1997	1998	1999	2000	2001	Total
Total Receivables	$474,797	$461,612	$468,872	$449,539	$514,827	
Less: Amounts Considered to be Uncollectible	215,210	211,832	242,344	247,799	272,631	
Net Receivables	$259,587	$249,780	$226,528	$201,740	$242,196	
Accounts Written off	**$ 69,877**	**$ 7,972**	**$ 1,855**	**$ 12,977**	**$2,308**	**$94,989**

The Canadian Institute of Chartered Accountants (CICA) recommends how to account for and report loans receivable in government financial statements, giving particular attention to special characteristics that distinguish them from commercial loans made in the private sector.

The CICA defines a loan receivable as a financial asset of a government represented by a promise by a borrower to repay a specific amount at a specified time or times, or on demand, usually with interest. Key to this definition is the fact that financial assets provide resources to discharge existing liabilities or finance future operations.

The CICA has recommended that when a direct relationship can be established between the repayment of a loan and a government's funding to the borrower, the portion of the loan that is expected to be recovered from future appropriations from government should be accounted for as an expenditure. When the terms of a loan are so concessionary that the substance of the transaction is that all or a significant part of the loan is more in the nature of a grant, the grant portion of the transaction should be recognized as an expenditure when the loan is made. A loan receivable should be removed from a government's statement of financial position when it has been repaid, the risks and rewards associated with the loan have been transferred, the right to repayment has expired or been waived, or it is written off.

A number of the recommendations made by the CICA apply to the accounting policies of Government and should be considered in preparing the financial statements. These include the following:

Comments on Selected Financial Information

Figure 1

Consolidated Revenue Fund
Accounts, Taxes, Loans, Advances and Mortgages Receivable
Years Ended 31 March
($000's)

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A number of the recommendations made by the CICA apply to the accounting policies of Government and should be considered in preparing the financial statements. These include the following:

- The CICA describes a loan receivable as a financial asset of a government represented by a promise by a borrower to repay a specific amount, at a specified time or times, or on demand, and usually with interest. Loans being established where there may not be a reasonable expectation of recovery would not qualify as a financial asset. In the 2000-2001 fiscal year, $1.515 million (1999-2000 - $13.0 million) of new loans were established for payments made by the Province to honour guarantees it provided on debt. One of these loans, in the amount of $537,000 was recorded as a loan receivable and Government expects full recovery of this amount. After the recovery of $263,000, the remaining two loans, totalling $715,000, were also reported as loans receivable; however, these amounts have also been included in the allowance for doubtful accounts. As a result, Government has recorded these loans as a financial assets even though there is not a reasonable expectation of recovery.

- The CICA provides guidance as to the proper disclosure of loans receivable. Currently, the Province's financial statements do not disclose such items as the repayment terms, interest terms and security held for any of its loans and advances receivable as recommended by CICA.

Crown Lending Agencies

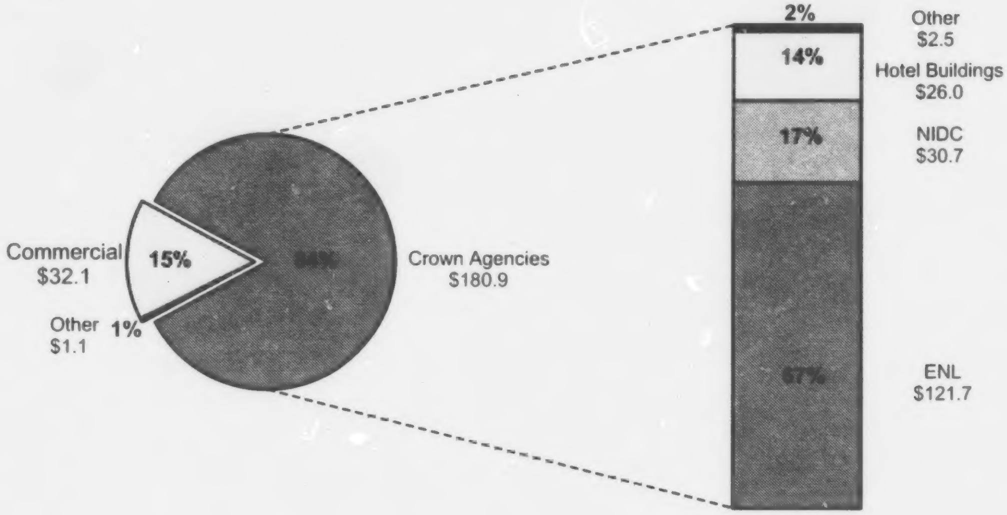
The Province of Newfoundland lends money to individuals, organizations and local governments to achieve policy objectives and, to a lesser extent, to earn a return on the use of government funds. These loans may be used to support regional development and provide economic assistance to those who qualify.

The Statement of Financial Position of the Consolidated Revenue Fund as at 31 March 2001 disclosed loans, advances and mortgages receivable of $214.1 million (2000 - $219.1 million), less an allowance for doubtful accounts of $175.2 million (2000 - $162.2 million). Figure 2 discloses the composition of these loans, advances and mortgages receivable.

Comments on Selected Financial Information

Figure 2

Consolidated Revenue Fund
Composition of Loans, Advances and Mortgages Receivable
31 March 2001
($ Millions)



Source: 31 March 2001 Loans, Advances and Mortgages Receivable Schedule, Consolidated Revenue Fund

Note: ENL balance includes accounts from Enterprise Newfoundland and Labrador, Farm Development Loan Board and Fisheries Loan Board

The funds advanced to the Crown lending agencies by the Province are in turn lent to individuals and corporations. Three of these Crown agencies account for 57% of the Province's loans, advances and mortgages receivable. These agencies are listed in Figure 3 along with their loan and equity portfolios.

Figure 3

Loan and Equity Portfolios of Crown Agencies
Years Ended 31 March
($ 000's)

Crown Agency	2000	2001
Enterprise Newfoundland and Labrador Corporation	$ 78,204	$72,695
Farm Development Loan Board	8,418	7,814
Fisheries Loan Board	21,033	17,370
Total	$107,655	$97,879

Source: 31 March 2001 audited financial statements, except unaudited financial statements for Fisheries Loan Board

We reviewed the financial statements of Enterprise Newfoundland and Labrador Corporation and its predecessor agencies, as well as the Farm Development Loan Board and the Fisheries Loan Board to determine:

- total loans issued, including interest, as disclosed in their respective financial statements;
- amounts repaid;
- amounts written off;
- balances outstanding; and
- amounts deemed uncollectible.

As at 31 March 1979, the predecessor entities of Enterprise Newfoundland and Labrador Corporation (ENL), the Farm Development Loan Board (FDLB) and the Fisheries Loan Board (FLB) had a combined loan and equity portfolio of approximately $48.5 million. Between 1 April 1979 and 31March 2001, an additional $503.8 million in loans and interest have been added to the portfolios. Of this $552.3 million portfolio, 68% has been repaid, 30% was written off or is considered uncollectible and a net receivable of 2% is still outstanding. Figure 4 summarizes these amounts by entity.

Comments on Selected Financial Information

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Composition of Loans, Advances and Mortgages Receivable
31 March 2001
($ Millions)

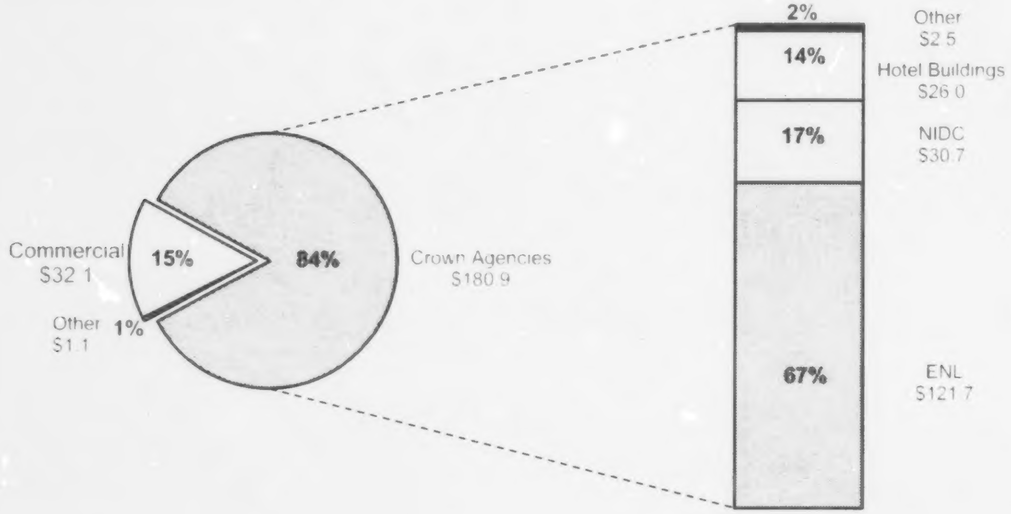

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Figure 4

Loan and Equity Portfolios of Crown Agencies
Summary of Findings
($ Millions)

Agency	31 March 1979 Balance	1979-2001 Loans, Equity and Interest	1979-2001 Amount Repaid	1979-2001 Amounts Written Off	31 March 2001 Balance	Amounts Considered Uncollectible	Percent of Accounts Written Off or Considered Uncollectible
ENL	$22.1	$286.1	$180.8	$54.7	$ 72.7	$64.2	38.6 %
FDLB	2.1	42.0	34.5	1.8	7.8	6.9	19.7 %
FLB	24.3	175.7	160.9	21.7	17.4	15.2	18.5 %
Total	**$48.5**	**$503.8**	**$376.2**	**$78.2**	**$97.9**	**$86.3**	**29.8 %**

Source: 1979-2001 audited financial statements except 31 March 2001 unaudited financial statements for Fisheries Loan Board

3.3 Employee Pension Obligations

Prior to 1967, public service salaries and pension benefits were paid under the authority of the *Civil Service Act*. Under that legislation there were no employee or employer contributions to a pension plan and pension benefits were paid out of the Consolidated Revenue Fund. In 1967, legislation was enacted which required that employees contribute to a pension plan. Employees' pension premiums were paid into the Consolidated Revenue Fund and pension benefits continued to be paid out of it.

In 1981, legislation was enacted which created the Province of Newfoundland Pooled Pension Fund and required that employee and employer pension premium contributions be paid into the Fund. Subsequent to the establishment of the Fund, pension benefits were paid by the Fund irrespective of whether the employee had contributed pension premiums to it. Figure 1 provides historical data for the Fund relating to pensioners and active members for the past 10 years.

Figure 4

Loan and Equity Portfolios of Crown Agencies
Summary of Findings
($ Millions)

		1979-2001					
Agency	**31 March 1979 Balance**	**Loans, Equity and Interest**	**Amount Repaid**	**Amounts Written Off**	**31 March 2001 Balance**	**Amounts Considered Uncollectible**	**Percent of Accounts Written Off or Considered Uncollectible**
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FLB	24.3	175.7	160.9	21.7	17.4	15.2	18.5 %
Total	**$48.5**	**$503.8**	**$376.2**	**$78.2**	**$97.9**	**$86.3**	**29.8 %**

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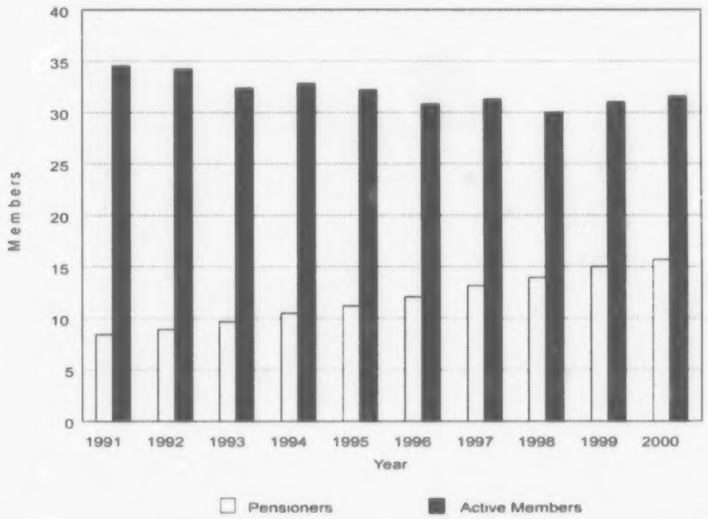
Comments on Selected Financial Information

Figure 1

Province of Newfoundland Pooled Pension Fund
Population History: Pensioners and Active Members
Years Ended 31 December
(000's)

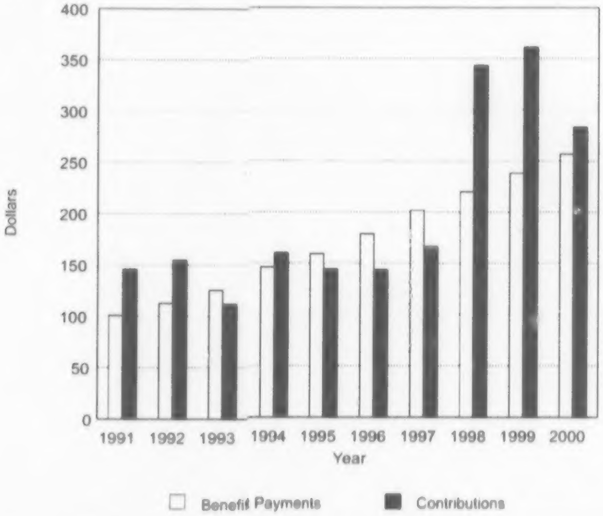


The Province of Newfoundland Pooled Pension Fund is comprised of four pension plans: the Public Service Pension Plan, the Teachers' Pension Plan, the Uniformed Services Pension Plan, and the Members of the House of Assembly Pension Plan. All employee and employer contributions are deposited into the Fund and pension benefits to plan members and other pension payments are made from it.

Our review disclosed that for the year ended 31 December 2000, approximately 31,500 employees, Members of the House of Assembly, and the employer paid pension premiums totalling $283 million into the Pension Fund under the four pension plans. Premiums of $283 million include a $116 million contribution by Government in excess of matching provisions. During the same period, the Fund provided benefits totalling $256 million to approximately 15,700 retirees. Figure 2 provides historical data for the Fund relating to pension benefits paid and pension contributions received for the past 10 years.

Figure 2

Province of Newfoundland Pooled Pension Fund
Pension Benefit Payments and Contributions
Years Ended 31 December
($ Millions)



Commencing during the 1997-98 fiscal year, Government started to make special payments to the Public Service Pension Plan to address the unfunded liability which at 31 March 1998 was $1.306 billion. At 31 March 1999 the unfunded liability had decreased to $1.043 billion but by 31 March 2001 it had increased again to $1.096 billion. Government contributed $30 million in each of 1997-98 and 1998-99. In 1999-2000 and 2000-01 Government contributed $40 million and will contribute $40 million for 2001-02. Government's contribution will then increase to $45 million in 2002-03 and to $60 million in 2003-04 until Government's share of the unfunded liability, as of 31 December 2000, is extinguished. In addition, Government increased the contributions for employees and employers by 1.0%, which was in effect as of January 2000.

During 1998-99, Government negotiated a new collective agreement with the Newfoundland and Labrador Teachers' Association which included provisions to address the unfunded liability of the Teachers' Pension Plan which as of 31 March 1998 was $1.764 billion and by 31 March 2001 had increased to $1.772 billion. In accordance with the agreement, Government will contribute up to $815 million to the Plan over a 14 year period. Government paid $166 million towards this commitment in 1998-99 and 1999-2000 and paid $76 million in 2000-01. Additional annual payments are to be made in instalments of $76 million until the remaining balance of an initial obligation of $815 million, plus interest, has been paid. Contribution rates for all teachers and the Government were increased by 0.5% effective 1 September 1998.

The Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan have no assets. In the case of the Uniformed Services Plan, the unfunded pension liability will increase from the present $207.4 million to an estimated $349.0 million by 2026. In the case of the Members of the House of Assembly Pension Plan the unfunded pension liability will increase from the present $49.5 million to an estimated $73.2 million by 2016.

In the Annual Reports to the House of Assembly for the years ended 31 March 1993 to 2000, I recommended that Government address its unfunded pension liability. Government has taken action to address the unfunded liability of the Public Service Pension Plan and the unfunded liability of the Teachers' Pension Plan and these measures will favorably impact the unfunded liabilities. I remain concerned, however, with the extent of the Province's overall net unfunded liability which as at 31 March 2001 was $3.348 billion (2000 - $3.309 billion).

Recommendation

Government should continue its efforts to address its unfunded pension liability.

3.4 Debt

As at 31 March 2001, borrowings were reported in the Consolidated Statement of Financial Position at $6.082 billion, which represents total borrowings of $7.366 billion less sinking fund assets of $1.284 billion. Total borrowings consist of general debentures, amounts borrowed from the Government of Canada and its agencies, as well as other notes and loans payable by the Province. The total debt of the Province, net of sinking fund assets for various debentures, is comprised of $5.421 billion in debt reflected in the Consolidated Revenue Fund, $334 million in Newfoundland Municipal Financing Corporation debt, $129 million in Newfoundland and Labrador Housing Corporation debt, $183 million in health care organizations, and other miscellaneous debt of $15 million.

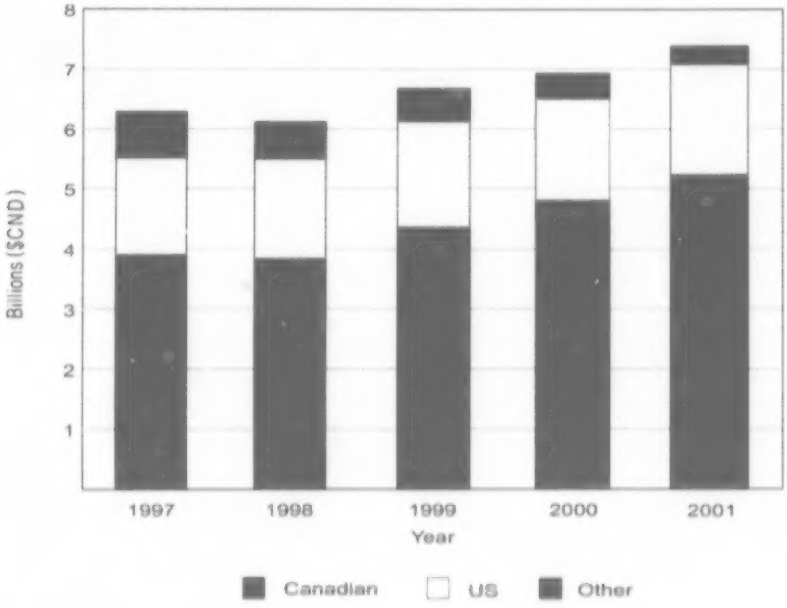
The borrowings of $6.082 billion does not include the borrowings of Newfoundland and Labrador Hydro. This accounting policy is in accordance with the recommendations of the Canadian Institute of Chartered Accountants which requires only the net equity position of a government business enterprise such as Newfoundland and Labrador Hydro to be recorded in the Consolidated Summary Financial Statements of the Province. In the audited financial statements of Newfoundland and Labrador Hydro for the year ended 31 December 2000, the Corporation reported debt of $1.32 billion.

Comments on Selected Financial Information

Figure 1 shows the total borrowings owing as at 31 March 1997 to 2001 as disclosed in the Consolidated Statement of Financial Position. The figure provides a breakdown of Canadian and foreign currency debt.

Figure 1

Consolidated Summary Financial Statements
Provincial Debt
Years Ended 31 March
($ Billions)



The Province's Borrowing Program

The Department of Finance is responsible for arranging and directing the annual borrowing requirements of the Consolidated Revenue Fund. The Provincial Budget determines how much capital market borrowing is required for a fiscal year. The Department monitors the capital markets and provides advice on when and where to borrow. For the 2000-2001 fiscal year the Province borrowed $450.0 million compared to the estimated total borrowing requirements of $284.6 million. In addition, Newfoundland Municipal Financing Corporation, Newfoundland and Labrador Housing Corporation, and other entities included in the Consolidated Summary Financial Statements borrowed $98.1 million, for total borrowing of $548.1 million. Figure 2 compares the Province's estimated and actual borrowing requirements for 2000-2001.

M121

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Figure 2

Consolidated Summary Financial Statements
Borrowing Requirements
Year Ended 31 March 2001
($ Millions)

	Estimate	Actual
Consolidated Revenue Fund		
Current Account	$(101.2)	$(120.0)
Capital Account	105.9	146.1
Debt Redemptions	139.9	101.1
Foreign Exchange Losses	-	41.7
Sinking Fund Contributions	51.0	48.2
Retirement of Pension Liabilities	116.0	116.0
Wind up of Voluntary Sinking Funds	(57.0)	(13.4)
Increase (decrease) in Temporary Investments	-	82.5
Other	30.0	47.8
	284.6	450.0
Newfoundland Municipal Financing Corporation	-	25.5
Newfoundland and Labrador Housing Corporation	-	21.0
Health Care Corporation of St. John's	-	31.6
Other	-	20.0
Total	**$ 284.6**	**$548.1**

As Figure 2 indicates, although Government estimated it would be required to borrow $285 million for the year ended 31 March 2001, it actually borrowed $450 million.

Figure 2

Consolidated Summary Financial Statements
Borrowing Requirements
Year Ended 31 March 2001
($ Millions)

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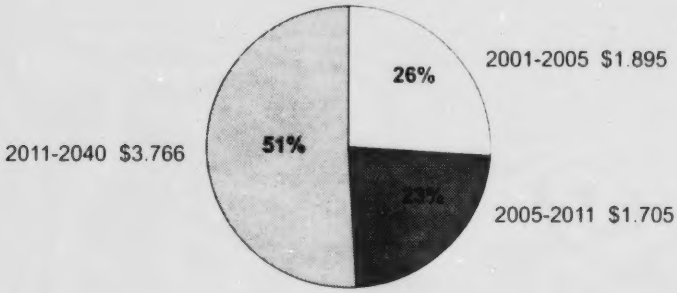
As Figure 2 indicates, although Government estimated it would be required to borrow $285 million for the year ended 31 March 2001, it actually borrowed $450 million.

Our review of borrowings as reported in the Province's Consolidated Summary Financial Statements as at 31 March 2001 indicated that 26% or $1.895 billion of the debt matures within four years, 23% or $1.705 billion of the debt matures between five and ten years and 51% or $3.766 billion of the debt matures in excess of ten years. The composition of this debt maturity profile for the Province is shown in Figure 3.

Figure 3

Consolidated Summary Financial Statements
Debenture Debt Maturity Profile
31 March 2001
($Billions)



Many of the debentures held by the Province have sinking fund requirements. As well, the Province voluntarily maintains sinking funds for Canada Pension Plan and other debentures. Sinking funds are a pool of cash and investments accumulated during the life of the debentures to repay the debt at maturity. The Province pays the sinking fund contributions to the Board of Trustees of the Newfoundland Consolidated Sinking Funds. This is an unincorporated body appointed by the Lieutenant-Governor in Council. The sinking funds of the Province are administered by the Board of Trustees as one fund known as the Newfoundland Government Sinking Fund. Figure 4 is a summary of sinking funds at 31 March 2001 along with the related debenture debt outstanding and the net amount left after reducing the debt by the amount of the sinking funds.

Comments on Selected Financial Information

Figure 4

Consolidated Summary Financial Statements
Borrowings and Sinking Funds
31 March 2001
($ 000's)

	Debt Outstanding	Sinking Fund Balance	Balance net of Sinking Fund
Total Debt With Statutory Sinking Funds	$3,601,997	$784,577	$2,817,420
Total Debt With Voluntary Sinking Funds	1,044,190	499,732	544,458
Total Debt Without Sinking Funds	2,719,913	-	2,719,913
Total	**$7,366,100**	**$1,284,309**	**$6,081,791**

Figure 5 shows borrowings net of sinking funds for each of the past five years.

Figure 5

Consolidated Summary Financial Statements
Borrowings and Sinking Funds
Years Ended 31 March
($Millions)

	1997	1998	1999	2000	2001
Borrowings	$6,291	$6,093	$6,654	$6,909	$7,366
Sinking Funds	985	1,042	1,097	1,210	1,284
Net Debt	**$5,306**	**$5,051**	**$5,557**	**$5,699**	**$6,082**

Our review of borrowings as reported in the Province's Consolidated Summary Financial Statements as at 31 March 2001 indicated that 26% or $1.895 billion of the debt matures within four years, 23% or $1.705 billion of the debt matures between five and ten years and 51% or $3.766 billion of the debt matures in excess of ten years. The composition of this debt maturity profile for the Province is shown in Figure 3.

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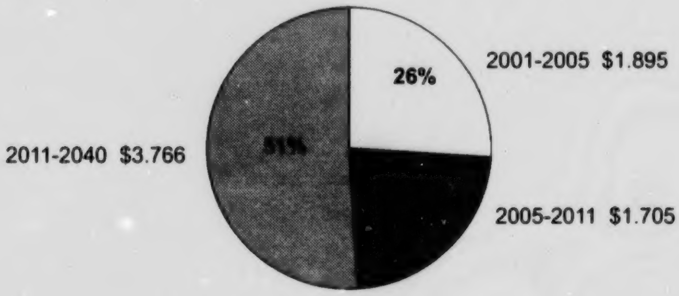

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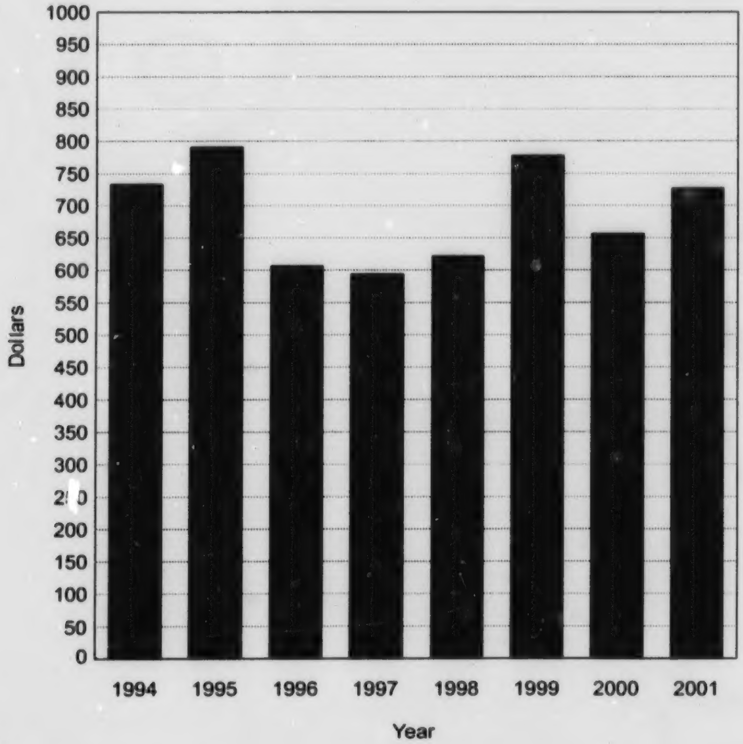
Sinking Funds	985	1,042	1,097	1,210	1,284
Net Debt	$5,306	$5,051	$5,557	$5,699	$6,082

The Province's debt expense for 2000-2001 as recorded in the Consolidated Summary Financial Statements is $951.4 million, which consists of $225.2 million of pension interest expense on the unfunded pension liability and $726.2 million which relates to the cost of servicing the Province's debt.

Our review of the Consolidated Summary Financial Statements over the past eight years disclosed that the cost of servicing the Province's debt has increased from $733.1 million in 1994 to $790.5 million in 1995, then decreased to $594.0 million in 1997, increased to $777.3 million in 1999, decreased to $655.9 in 2000 and increased to $726.2 in 2001. This information is contained in Figure 6.

Figure 6

Consolidated Summary Financial Statements
Debt Servicing Costs (Excluding Pension Interest Expense on the Unfunded Liability)
Years Ended 31 March
($ Millions)



The composition of the cost of servicing the Province's debt for the year ended 31 March 2001 is indicated in Figure 7.

Figure 7

Consolidated Summary Financial Statements
Debt Servicing Costs
Year Ended 31 March 2001
($ Millions)

Issue	Debt Servicing Cost	Percentage of Total Debt Servicing Cost	Percentage of Debt Portfolio
Consolidated Revenue Fund			
Canadian	$272.8	28.6 %	31.2 %
CPP / Government of Canada	69.7	7.3 %	5.7 %
United States	184.9	19.4 %	16.7 %
Swiss	17.9	1.9 %	2.5 %
Japanese	0.5	0.1 %	0.2 %
Other	107.2	11.3 %	6.8 %
	653.0	68.6 %	63.1 %
Newfoundland Municipal Financing Corporation	39.5	4.1 %	3.7 %
Newfoundland and Labrador Housing Corporation	30.2	3.2 %	1.2 %
Other	3.5	0.4 %	1.8 %
	726.2	76.3 %	69.8 %
Pension Interest Expense on the Unfunded Liability	225.2	23.7 %	30.2 %
Total	$951.4	100.0 %	100.0 %

The composition of the cost of servicing the Province's debt for the year ended 31 March 2001 is indicated in Figure 7.

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Consolidated Summary Financial Statements
Debt Servicing Costs
Year Ended 31 March 2001
($ Millions)

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Other	3.5	0.4 %	1.8 %
	726.2	76.3 %	69.8 %
Pension Interest Expense on the Unfunded Liability	225.2	23.7 %	30.2 %
Total	$951.4	100.0 %	100.0 %

3.5 Foreign Debt

As at 31 March 2001, total borrowings outstanding, as disclosed in the Consolidated Summary Financial Statements, was $7.366 billion of which $2.151 billion or 29.2% was repayable in foreign currencies.

Our review of the borrowings as reported in the Province's Consolidated Summary Financial Statements as at 31 March 1997, 1998, 1999, 2000 and 2001 indicated that for 1998 there was a net decrease from the previous year of $198 million. For 1999, 2000 and 2001 there were net increases from previous years of $561 million, $255 million and $457 million respectively. The net changes for the five years resulted from the transactions shown in Figure 1.

Figure 1

Consolidated Summary Financial Statements
Change in Debenture and Other Debt
Years Ended 31 March
($ Millions)

	1997	1998	1999	2000	2001
Consolidated Revenue Fund					
Outstanding debenture and other debt, beginning of year	$5,939	$5,562	$5,370	$5,989	$6,204
New debt					
Borrowed	100	289	700	400	450
Newfoundland Ocean Enterprises Limited (Assumed)	-	-	71	-	-
Newfoundland Farm Products (Assumed)	-	-	10	-	-
Pooled Pension Fund	-	-	6	-	-
Other	-	-	2	-	-
Increase (decrease) in Treasury Bill borrowings	2	(35)	21	12	0
Debt retired	(357)	(479)	(346)	(60)	(101)
Increase (decrease) in debt due to changes in the value of the Canadian dollar	(122)	33	155	(137)	76
Outstanding debenture and other debt, end of year	5,562	5,370	5,989	6,204	6,629
Newfoundland Municipal Financing Corporation	545	474	450	423	410
Newfoundland and Labrador Housing Corporation	154	134	130	131	129
Other	30	115	85	151	198
Total	**$6,291**	**$6,093**	**$6,654**	**$6,909**	**$7,366**

3.5 Foreign Debt

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Years Ended 31 March
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	1997	1998	1999	2000	2001
Consolidated Revenue Fund					
Outstanding debenture and other debt, beginning of year	$5,939	$5,562	$5,370	$5,989	$6,204
New debt					
Borrowed	100	289	700	400	450
Newfoundland Ocean Enterprises Limited (Assumed)	-	-	71	-	-
Newfoundland Farm Products (Assumed)	-	-	10	-	-
Pooled Pension Fund	-	-	6	-	-
Other	-	-	2	-	-
Increase (decrease) in Treasury Bill borrowings	2	(35)	21	12	0
Debt retired	(357)	(479)	(346)	(60)	(101)
Increase (decrease) in debt due to changes in the value of the Canadian dollar	(122)	33	155	(137)	76
Outstanding debenture and other debt, end of year	5,562	5,370	5,989	6,204	6,629
Newfoundland Municipal Financing Corporation	545	474	450	423	410
Newfoundland and Labrador Housing Corporation	154	134	130	131	129
Other	30	115	85	151	198
Total	**$6,291**	**$6,093**	**$6,654**	**$6,909**	**$7,366**

The cost of borrowing in foreign currencies is affected by fluctuations in the value of the Canadian dollar. There is a risk that if the value of the Canadian dollar declines in relation to other currencies, the cost of purchasing foreign currencies to pay interest charges or to retire the debt increases. This will result in additional costs to the Province to service the foreign debt.

Figure 2 indicates the exchange rate fluctuations related to the foreign currency debt of the Province.

Figure 2

Exchange Rates
31 March

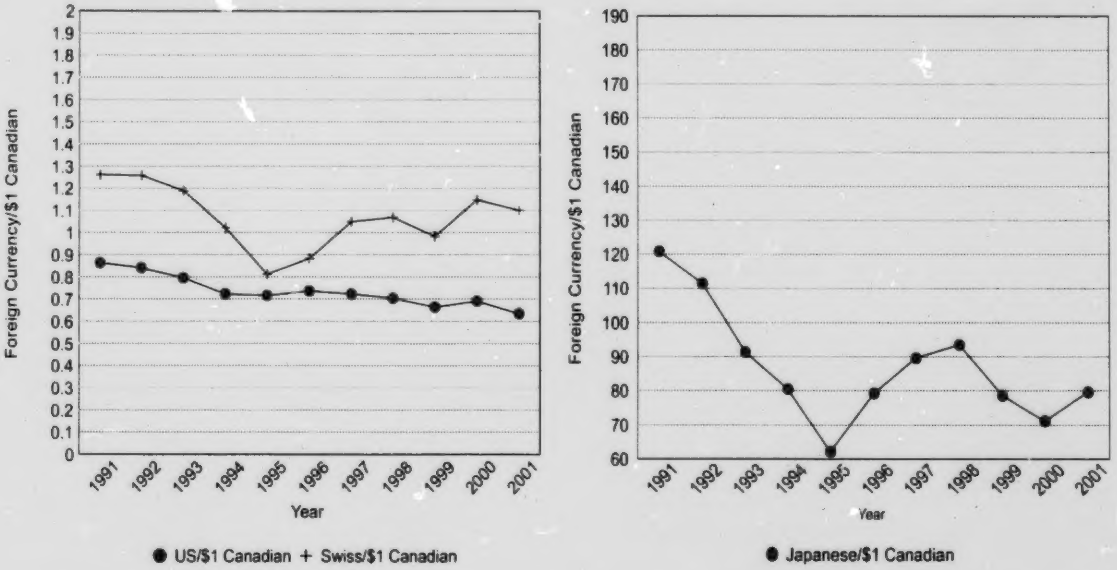

Figure 3 indicates the foreign currency debt issues outstanding as at 31 March 2001. The figure also indicates the interest rate stipulated in the debenture or loan agreement, the Canadian interest rate at the time of issue (as indicated by the Department of Finance) and the effective cost of borrowing for the fiscal years 1998-99 to 2000-2001.

Figure 3

Effective Cost of Borrowing Foreign Currency Debt

Issue	Interest Rate Per Debenture or Loan Agreement	Canadian Interest Rate Available at Time of Issue	Effective Cost of Borrowing *		
			1998-99	1999-2000	2000-01
J9 (Japanese Yen)	4.800%	8.900%	13.478%	11.033%	-
J10(Japanese Yen)	4.950%	8.900%	8.130%	10.990%	1.425%
S3 (Swiss Franc)	5.375%	11.250%	24.341%	(10.333%)	4.559%
S6 (Swiss Franc)	7.500%	11.900%	26.867%	-	-
S7 (Swiss Franc)	7.000%	11.000%	19.068%	(1.055%)	7.263%
S8 (Swiss Franc)	3.250%	5.700%	6.737%	(3.338%)	2.406%
AF (U.S.$)	11.625%	12.500%	13.743%	8.806%	12.015%
AG (U.S.$)	9.000%	10.100%	12.407%	8.605%	11.001%
AH (U.S.$)	9.875%	11.850%	15.235%	11.219%	13.924%
AJ (U.S.$)	10.000%	11.800%	15.529%	11.629%	14.261%
AK (U.S.$)	9.000%	10.750%	14.957%	11.019%	13.488%
AM (U.S.$)	8.650%	9.800%	12.365%	9.407%	11.463%
AN (U.S.$)	7.320%	8.500%	9.575%	7.243%	8.785%
J11 (U.S.$)	8.500%	8.900%	11.934%	4.479%	15.977%

* The effective cost of borrowing represents the costs of interest, the amortization of foreign exchange gains and losses, and realized exchange gains and losses on sinking fund contributions, expressed as a percentage of the Canadian dollars received from the debt at the time of issue.

3.6 Loan Guarantees

A loan guarantee represents an undertaking by the Province that it will pay the outstanding principal and interest relating to a guaranteed obligation in the event of a default by the borrower. These guarantees may be used to support regional development or to give economic assistance to certain industries or individuals who meet specified criteria. The Province has guaranteed the repayment of principal and interest of certain debentures and bank loans on behalf of municipalities, individuals, and private and Crown corporations.

The responsibility for the issuance of these guarantees rests with the Minister of Finance.

These guarantees are not recorded as a direct liability of the Province because they become such only in the event of default. Accordingly, outstanding guarantees are disclosed in a schedule to the Consolidated Revenue Fund Financial Statements. A summary of these guarantees is presented in Figure 1.

Figure 1

Consolidated Revenue Fund
Loan Guarantees
Years Ended 31 March
($ 000's)

Description of Guarantee	2000		2001	
	Amount	%	Amount	%
Debentures				
Newfoundland and Labrador Hydro	$1,125,242	69.3	$1,161,453	69.3
Newfoundland Municipal Financing Corporation	361,559	22.3	333,179	19.9
Health Care Corporation of St. John's	100,415	6.2	132,605	7.9
Municipalities	1,600	0.1	1,420	0.1
Newfoundland Liquor Corporation	419	-	314	-
Bank Loans				
Crown Agencies	1,078	0.1	12,741	0.7
Fisheries	23,040	1.4	25,133	1.5
Municipalities	799	-	1,116	0.1
Corporate	3,162	0.2	1,149	0.1
Other	7,000	0.4	7,000	0.4
Total	**$1,624,314**	**100.0**	**$1,676,110**	**100.0**

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Total	**$1,624,314**	**100.0**	**$1,676,110**	**100.0**

The Canadian Institute of Chartered Accountants recommends that loan guarantees be accounted for and reported as contingent liabilities and that a provision for losses on loan guarantees be established when it is determined that a loss is likely. For the year ended 31 March 2001 the Province has established a provision of $0.7 million for expected losses on loan guarantees.

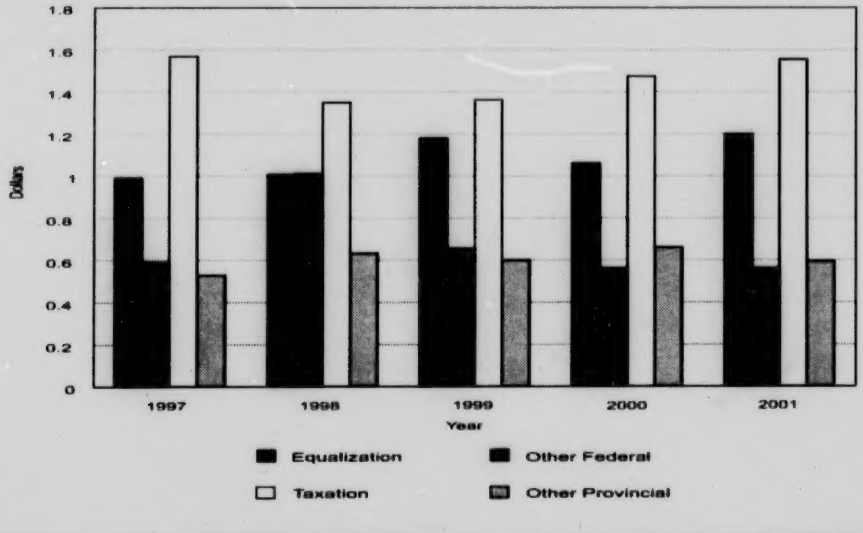
For the period 1 April 1983 to 31 March 2001 the Province has issued corporate loan guarantees totalling $153.2 million and has been obligated to make payments totalling $94.8 million on these guarantees. Also, the Province has been obligated to make payments totalling $3.6 million on fisheries loan guarantees. All of these payouts under guarantee were originally recorded as loans receivable of the Province.

3.7 Information on Government's Revenue

Total revenue for the year ended 31 March 2001 was reported in the Consolidated Summary Financial Statements as $3.901 billion. In addition, net income of Government Business Enterprises for the year ended 31 March 2001 was $131.0 million. Figure 1 shows the revenue of $3.901 billion, by source, for the fiscal years to 1997 to 2001.

Figure 1

Consolidated Summary Financial Statements
Revenue by Source
Years Ended 31 March
($ Billions)



The Government of Canada represents the most significant source of revenue for Government, totalling $1.757 billion in 2001. These revenues include payments received under federal provincial fiscal arrangements relating to Tax Equalization, Canada Health and Social Transfers, cost shared programs, and other payments. Government of Canada revenue represents approximately 45% of all revenues in 2001 (2000 - 43%).

Taxes amounted to $1.553 billion in 2001. Taxes include Sales Tax, Personal Income Tax, Corporate Income Tax, Gasoline Tax as well as a variety of other taxes. Tax revenues represent approximately 40% of all revenues in 2001 (2000 - 39%).

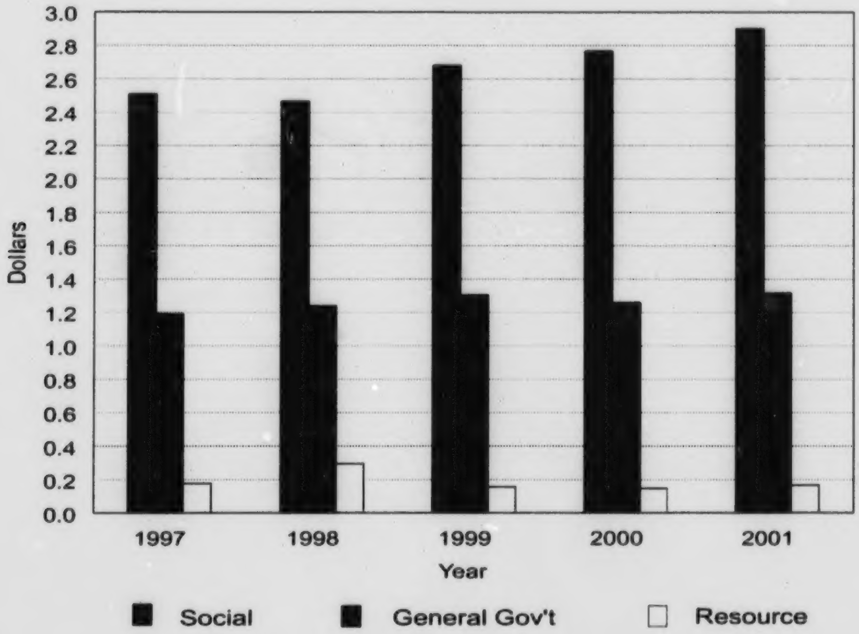
Aside from the main sources of revenue previously outlined, other sources of revenue exist, totalling $591 million in 2001. These other revenues relate to miscellaneous revenues such as investment income, vehicle drivers' licences and court fees and forfeitures. Other revenues have decreased from $661 million in 2000 to $591 million in 2001. Other revenues represent approximately 15% of total revenue in 2001 (2000 - 18%).

3.8 Information on Government's Expenditure

Total expenditure in 2001 was reported in the Consolidated Summary Financial Statements at $4.382 billion. Figure 1 shows the total expenditure, by sector, for the fiscal years 1997 to 2001.

Figure 1

Consolidated Summary Financial Statements
Expenditure By Sector
Years Ended 31 March
($ Billions)



Social Sector expenditures of $2.903 billion include the expenditures of the Departments of: Education; Health and Community Services; Justice; Municipal and Provincial Affairs; Human Resources and Employment; Labour; and Youth Services and Post Secondary Education.

General Government Sector expenditures of $1.314 billion include expenditures of Consolidated Fund Services, Legislature, Executive Council, Public Service Commission, the Departments of: Finance; Government Services and Lands; Works, Services and Transportation; and Labrador and Aboriginal Affairs.

Resource Sector expenditures of $165 million include the expenditures of the Departments of: Environment; Fisheries and Aquaculture; Forest Resources and Agrifoods; Industry, Trade and Rural Development; Mines and Energy; and Tourism, Culture and Recreation.

3.9 Contingency Reserve Fund

In its 1996 Budget Speech, Government announced the establishment of a Contingency Reserve Fund of $30 million. This fund was to be used in case of unforeseen expenditures or where the Province's revenues fall below those projected. In each of its Budgets for the past five years Government has included a Contingency Reserve Fund in the amount of $30 million. Section 4(4) of the *Supply Act, 2000,* Section 4(4) of the *Supply Act, 1999*, Section 4(4) of the *Supply Act, 1998*, Section 4(2) of the *Supply Act, 1997,* and Section 4(2) of the *Supply Act, 1996,* provide that the Lieutenant-Governor in Council may, where an expenditure has not been foreseen and not provided for by the Legislature, transfer sums voted in the Contingency Reserve Fund to another Head of Expenditure. During the five years from 31 March 1997 to 31 March 2001 Government transferred a total of $148 million from the Contingency Reserve Fund to the departments, as shown in Figure 1.

Figure 1 also provides details of the various projects which were funded by Government from the Contingency Reserve Fund for each of the past five years.

Figure 1

Contingency Reserve Expenditures By Department and Project Years Ended 31 March

Department	Project	1997	1998	1999	2000	2001	Total 1997-2001
Health and Community Services	New autism-related initiatives				$172,600		
	Assessment of the new Youth Criminal Justice Act				25,000		
	To send residents of the Province to the United States for cardiac surgery				2,115,000		
	To send residents of the Province out of the country to receive Radiation Therapy				320,000		
	Renovations to St. Clare's Hospital for a Breast Health Centre				2,000,000		
	To establish satellite haemodialysis services in St. Anthony and Clarenville				150,800		
	Post budget nursing initiatives				5,900,000		
	The Provinces' share of restructuring the National Blood Supply Program			$7,400,000			
	Operating deficits and new funding requirements of institutions		$23,600,000				
	Settlement of claims from construction of health care centers in Burgeo, Port Saunders and St. Lawrence.	$1,903,448					$43,586,848
Education	New autism-related initiatives				86,000		
	Provincial College Operations $1.2 million and Student Loans Programs $5.0 million			6,200,000			
	Newfoundland and Labrador Education Investment Corporation		1,700,000			$7,500,000	
	School Board Debt	15,000,000					30,486,000
Justice	Action against tobacco companies to recover health care costs				1,500,000		
	Costs associated with Caribou Investment and Loan Company Limited				800,000		
	Assessment of the new Youth Criminal Justice Act				75,000		
	To meet projected payroll and operational needs				1,668,400		

Figure 1 (Cont'd)

Department	Project	1997	1998	1999	2000	2001	Total 1997-2001
Justice (Cont'd)	Civil Law- Allowances and Assistance - Murray Premises settlement			4,200,000			
	Settlement of Petten/Eastern Shipbuilders Case			1,800,000			
	Breathalyzer Units			240,000			
	Reclassification of Youth Care Workers			580,000			
	Peacekeeping duties in Kosovo and Criminal Code amendments implementation					92,300	
	R.C.M.P. salary increases					960,000	
	Retroactive pay, judgement interest and legal fees for Provincial Court judges					3,647,500	
	Settlement of the claim of William Earle	102,300					
	Settlement for 43 Mount Cashel Claimants	11,238,000					
	Negotiations relating to the Terra Nova Project, etc.	600,000					27,503,500
Forest Resources and Agrifoods	Emergency fire suppression cost overruns				5,538,000	1,220,000	
	To establish the Legacy Nature Trust				1,000,000		
	Forestry development in Labrador					250,000	
	Special Employment Initiatives		2,500,000	1,000,000		1,030,000	12,538,000
Municipal and Provincial Affairs	Fire Commissioner's Office			216,400			
	Special Employment Initiatives		1,000,000	3,000,000	3,500,000	3,749,000	11,465,400
Works, Services and Transportation	Improvement and construction of Provincial roads				1,500,000	365,000	
	Construction of Bonne Bay Health Care facility					460,000	
	Environmental cleanup of old General Hospital site					195,000	
	Emergency fire suppression cost overruns				500,000		
	Special Employment initiatives		700,000	500,000	1,500,000	1,540,000	7,260,000

Figure 1 (Cont'd)

Department	Project	1997	1998	1999	2000	2001	Total 1997-2001
Human Resources and Employment	Special Employment Initiatives		300,000				
	Employment Development Programs			3,000,000			3,300,000
Industry, Trade and Rural Development	Special employment initiatives					1,320,000	
	Community economic development program					1,400,000	
	Initiatives for development and upgrade of the former CN rail bed			175,000			2,895,000
Tourism, Culture and Recreation	Cleanup and maintenance of route to L'Anse aux Meadows, wharf upgrading and cleanup of walking trails					125,000	
	Cost of television coverage of L'Anse aux Meadows arrival ceremony					275,000	
	Purchase collection of Grenfell hooked rugs					300,000	
	Travel costs for Labrador students' participation in sports programs					180,000	
	Engineering study and emergency repairs to T'Railway					325,000	
	Special employment initiatives					81,000	
	Tourism miscellaneous grants			150,000	331,000	300,000	
	Recreation - Operations expenditures			390,000			
	Park Vehicles			100,000			
	Grant to the Johnston Family Foundation - Grand Concourse	100,000					2,657,000
Finance	Municipal debt relief					2,500,000	2,500,000
Executive Council	Undertake various information technology contracts					570,000	
	Strategic Social Plan			500,000			1,070,000

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Figure 1 (Cont'd)

Department	Project	1997	1998	1999	2000	2001	Total 1997-2001
Mines and Energy	Care and maintenance program at the former Hope Brook Mine site and planning for the eventual reclamation of the site				945,000		
	Negotiations related to the Terra Nova Project, etc.	75,000					1,020,000
Government Services and Lands	Legal costs related to intervenors' submission to Superintendent of Insurance to the Board of Commissioners of the Public Utilities hearing					65,000	
	Commercial registrations				350,000		
	Permitting and Inspection Services			108,200			
	Firearms Legislation Project		200,000				723,200
Legislature	Provincial by-elections					208,200	
	House of Assembly Operations			250,000			458,200
Fisheries and Aquaculture	Special employment initiatives					100,000	
	Additional projects under special assistance grants program					200,000	300,000
Environment	Residential awareness program on energy conservation and climate change					172,000	172,000
Labour	Review of labour relations on major construction and offshore fabrication projects					120,000	120,000
Total		$29,018,748	$30,000,000	$29,809,600	$29,976,800	$29,250,000	$148,055,148

Source: Government's accounting records

Figure 1 (Cont'd)

Department	Project	1997	1998	1999	2000	2001	Total 1997-2001
Mines and Energy	Care and maintenance program at the former Hope Brook Mine site and planning for the eventual reclamation of the site				945,000		
	Negotiations related to the Terra Nova Project, etc.	75,000					1,020,000
Government Services and Lands	Legal costs related to intervenors' submission to Superintendent of Insurance to the Board of Commissioners of the Public Utilities hearing					65,000	
	Commercial registrations				350,000		
	Permitting and Inspection Services			108,200			
	Firearms Legislation Project		200,000				723,200
Legislature	Provincial by-elections					208,200	
	House of Assembly Operations			250,000			458,200
Fisheries and Aquaculture	Special employment initiatives					100,000	
	Additional projects under special assistance grants program					200,000	300,000
Environment	Residential awareness program on energy conservation and climate change					172,000	172,000
Labour	Review of labour relations on major construction and offshore fabrication projects					120,000	120,000
Total		**$29,018,748**	**$30,000,000**	**$29,809,600**	**$29,976,800**	**$29,250,000**	**$148,055,148**

Source: Government's accounting records

3.10 Information on Government's Deficits

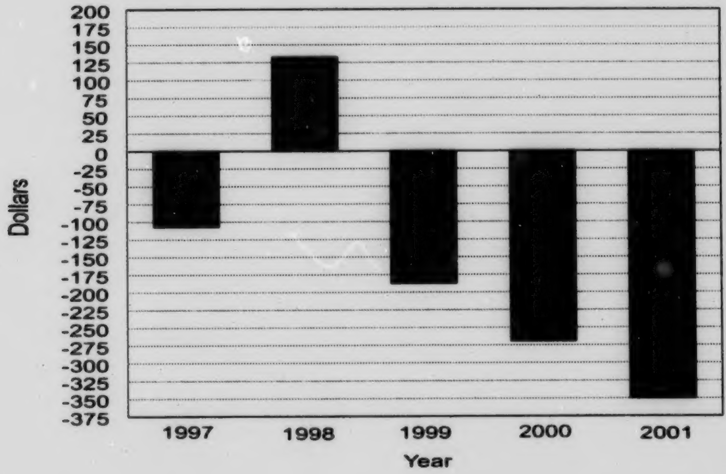
In discussing Government's deficits, it is important to differentiate between the Government's deficit in any particular year and the Government's accumulated deficit at a point in time. The annual deficit is the difference between a government's revenues and expenses in a fiscal year. This measure shows the extent to which revenues raised in the year were insufficient to meet expenses in that year. Accumulated deficit is the sum of all annual deficits and surpluses and is equal to the difference between a government's total debt and its total financial assets.

The total deficit for the 2000-2001 fiscal year, after giving effect to $131 million (1999-2000 - $144 million) of net income of Government enterprises, was reported in the Consolidated Summary Financial Statements at $350 million (1999-2000 - $269 million). The total deficit represents the excess of expenditure over revenue for current and capital accounts. The accumulated deficit as at 31 March 2001 was $8.4 billion (2000 - $8.1 billion).

Figure 1 shows the deficit (current and capital) of the Province for the year ended 31 March 1997, the surplus for the year ended 31 March 1998, and the deficits for the years ended 31 March 1999, 2000 and 2001. As the figure indicates, the Province realized a deficit in four of the last five years. The contributing factor in the surplus in 1997-98 was the receipt of a one-time payment of $347.6 million from the Federal Government in consideration for the Province assuming all responsibility for operation of the marine, freight and passenger services on and to the coast of Labrador.

Figure 1

Consolidated Summary Financial Statements
Surplus (Deficit) (Current and Capital)
Years Ended 31 March
($ Millions)



3.11 Service Organization Report

Government uses xwave as its service organization for the electronic processing and storage of data, maintaining and updating programs, and generation of reports. The *Canadian Institute of Chartered Accountants (CICA) Handbook* provides guidance to the auditor of an entity in obtaining audit evidence when the entity uses a service organization.

Since we are required to obtain a sufficient understanding of internal control to plan and conduct the audit of the Public Accounts of the Province, we have to determine the amount of reliance that can be placed on the management and accounting systems in operation. We must also consider the nature and extent of the services provided by xwave solutions including the authority delegated to it and the sufficiency and appropriateness of evidence available from the Province. An important source of this assurance is an opinion on control procedures at the service organization, as outlined in section 5900 of the *CICA Handbook.*

We received a report on control procedures at xwave in April 2001. It indicated that control objectives reviewed were sufficient to meet the stated objectives of the system, the control procedures described in the report were suitably designed to provide reasonable, but not absolute assurance that the control objectives were achieved, and that control procedures at the data centre operated effectively from 6 November 2000 to 17 November 2000.

PROVINCE OF NEWFOUNDLAND

REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF ASSEMBLY
ON REVIEWS OF
DEPARTMENTS AND CROWN AGENCIES

for the

YEAR ENDED

31 MARCH 2001

PRINTED UNDER THE AUTHORITY OF THE HOUSE OF ASSEMBLY
ST. JOHN'S, NEWFOUNDLAND

PROVINCE OF NEWFOUNDLAND

Office of the Auditor General

31 January 2002

The Honourable Lloyd Snow, M.H.A.
Speaker
House of Assembly

Dear Sir:

In compliance with the *Auditor General Act*, I have the honour to submit herewith, for transmission to the House of Assembly, my Report on Reviews of Departments and Crown Agencies for the year ended 31 March 2001.

Respectfully submitted,

E. Marshall

ELIZABETH MARSHALL, C.A.
Auditor General

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1.1 Introduction

This Report has been prepared in compliance with the requirements of section 12 of the *Auditor General Act*. Section 12 requires that this Report outline significant matters identified during the course of examining the accounts of the Province, agencies of the Crown and other entities which, in the opinion of the Auditor General, should be brought to the attention of the House of Assembly.

In accordance with this provision of the *Act*, this Report includes those instances that have been observed in the course of the audits and additional examinations of departments, agencies of the Crown and other entities, that are considered to be significant. An examination of each of these matters was performed in accordance with generally accepted auditing standards and, accordingly, included such tests and other procedures considered necessary in the circumstances. The instances reported should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not reported.

Comments on the audit of the financial statements of the Province are contained in a separate report entitled *Report of the Auditor General to the House of Assembly on the Audit of the Financial Statements of the Province for the Year Ended 31 March 2001*. That Report is also submitted to the Speaker of the House of Assembly to be tabled before the House.

1.2 Format of the Report

This Report contains five chapters and four appendices. A brief description of the contents of each chapter follows.

Chapter 1 Auditor General's Overview

This chapter provides an introduction to the Report and summarizes significant matters which are presented in more detail in other parts of this Report.

Chapter 2 Comments on Public Sector Accountability

This chapter contains comments and a recommendation relating to the systems of accountability within Government, its departments, agencies of the Crown, and Memorial University of Newfoundland.

Chapter 3 Comments on Audits and Additional Examinations

The comments in this chapter pertain to the audit observations and recommendations resulting from audits of specific departments and agencies of the Crown. The departmental audits are listed in Appendix II, the financial statement audits performed by the Auditor General are listed in Appendix III, and the financial statement audits performed by private sector auditors are listed in Appendix IV. Additional examinations are conducted on a cyclical basis on all Government departments and agencies of the Crown.

Chapter 4 Update on Prior Years' Report Items

This chapter provides an update on action taken with respect to recommendations made in our 1999 and prior Reports.

Chapter 5 General Matters and Work of the Audit Office

This chapter addresses a number of general matters relating to the operations of the Office of the Auditor General including performance objectives and results to date, the financial statements of the Office, any special reports issued during the year, and comments relating to the professional activities of the Office.

1.3 Highlights

1. Framework of Accountability

For each of the past ten years I have recommended the implementation of a legislated accountability framework for all public sector entities in the Province, including government departments, all Crown agencies and Memorial University. I have also recommended that the framework include a strategic and operational planning process, clearly defined objectives, measurement criteria, a financial budget and a reporting system which provides appropriate information at various levels. The reporting process should include reports to the House of Assembly.

Again this year, very little information is being provided to the House of Assembly. While considerable attention is given to the government's budget, there is a lack of emphasis on receiving and reviewing information on how departments, Crown agencies and Memorial University intended to spend the monies which were approved during the budget process and compared with how they actually spent those monies.

Government has undertaken some initiatives which are intended to address the present lack of accountability of government departments, Crown agencies and Memorial University. These can be summarized as follows:

- Departments were required to submit plans to Cabinet Secretariat. Our review disclosed that the majority of departments had prepared strategic plans as required. However, we were informed that these plans are to remain internal within Government. They have not been tabled in the House of Assembly and there is no intention, at this time, to release them publicly.

- For Crown agencies and Memorial University, Treasury Board Secretariat issued guidebooks on accountability. However, at the present time there is no legislation supporting the documents and implementation is at the discretion of the minister responsible. Therefore, the system as envisioned by these documents is not mandatory at the present time.

Government has not made sufficient progress in implementing a framework of accountability for Government departments, Crown agencies and Memorial University. While Government has undertaken some initiatives to improve accountability *within* Government, none of the initiatives undertaken by Government require any of the plans, information or reports to be tabled in the House of Assembly. True accountability requires that this information be provided to the House of Assembly and made available to the public.

Our review has disclosed that in all Canadian jurisdictions, except this Province, some form of annual report is required to be tabled in the legislature by departments and the majority of Crown Agencies. Unfortunately this Province does not have any accountability legislation requiring the tabling of accountability reports in the House of Assembly.

2. Government's Results of Financial Operations

When I was appointed Auditor General in 1992, I took exception to the manner in which Government was calculating its surplus or deficit. At that time Government was not including the results of operations of all of its entities and there were some transactions not included. Subsequent to this, Government began to prepare more accurate financial statements.

While Government now prepares more accurate financial statements, it continues to calculate and publicly report its surplus or deficit in the same incomplete manner as it did back in 1992. These surpluses or deficits do not include all of the financial transactions and activities of Government, and they portray financial results which are much more optimistic than the actual financial results. As a result, I continue to take exception to the annual surpluses or deficits being reported publicly by Government.

The deficit publicly reported by Government for 2000-01 was $30 million. This is not accurate given the actual deficit for 2000-01 for Government and all of its entities was $350 million.

The $30 million deficit reported by Government for 2000-01 is the cash deficit of one government entity only, called the Consolidated Revenue Fund. However, other financial activity takes place outside of this one Fund, in other government created entities, such as the Health Care Sector, the Education Sector, Newfoundland and Labrador Hydro and other organizations which are owned or controlled by, and are accountable to, Government. Providing information on one Fund only presents an incomplete picture of Government's finances.

In addition, the surplus or deficit of this one Fund, the Consolidated Revenue Fund, can be changed by moving money between that Fund and any of the other Government entities. This has occurred in previous years when Government made payments to numerous Government entities during the last month of each fiscal year through the issuance of special warrants, thereby significantly affecting the surplus or deficit being reported.

In addition, the financial planning information (i.e. the Budget) presently published by Government also focuses on an incomplete picture of the Government's finances by presenting a budget for one Government entity only, the Consolidated Revenue Fund. The surplus or deficit of the Consolidated Revenue Fund as presented in the budget can also be changed by budgeting for transactions between this one entity and the other Government entities. This also has occurred in previous years by budgeting for various types of revenues from a number of Government entities, thereby significantly affecting the surplus or deficit being budgeted and providing Government with the flexibility to produce whatever financial results it desires.

As a result, I am again recommending that Government discontinue reporting the cash surplus or cash deficit of the Consolidated Revenue Fund as Government's surplus or deficit. Government should report the surplus or deficit of its consolidated summary financial statements as its actual surplus or deficit for each year. For the 2000-01 fiscal year, this deficit was $350 million.

I am also recommending that Government publish a financial plan for the entire Government.

3. Creation of Crown Corporations and Borrowing without Legislative Authority

This year I reviewed the manner in which Government is creating Crown corporations and agencies. While the majority of existing Crown corporations and agencies have been created by legislation enacted by the Legislature, some have been created under the *Corporations Act*. While Government has the authority to create Crown corporations and agencies under the *Corporations Act*, accountability would be enhanced if these Crown corporations and agencies were created by legislation enacted by the Legislature which would outline their mandate, their authority to carry out certain activities, and their accountability processes.

A related, but more significant, issue was identified during this review. Specifically Crown corporations and agencies (as well as government departments) cannot borrow without the authority of the Legislature. However, our review identified two Crown corporations which had borrowed $3.8 million and $1.3 million respectively as of 31 March 2001, and which were authorized by Order in Council to borrow in total $40 million and $75 million respectively. These borrowings were never approved by the Legislature.

I am recommending that Crown corporations and agencies be created under the authority of the Legislature through separate specific legislation and that they cease borrowing unless authorized to do so by an act of the Legislature.

4. Non-Compliance with the Financial Administration Act

The *Financial Administration Act* is the primary act governing the financial operations of Government. The Act requires that Government can only spend money for purposes authorized by the Legislature, Government cannot spend beyond the amounts approved by the Legislature, and Government cannot raise money without the approval of the Legislature.

During the year I identified a number of instances where departments did not comply with the *Financial Administration Act*. Although I have seen instances of non-compliance in previous years, this year the instances identified are more prevalent. For example, some departments made payments from accounts for purposes other than those authorized by the Legislature, two departments entered into commitments in excess of the amount of funding provided by the Legislature, and four Crown agencies borrowed money without the authority of the Legislature.

5. A Review of Overtime

Over the past several years, Government departments have incurred significant amounts of overtime. Our review indicated that overtime payments have increased from $7.7 million in 1996-97 to $13.5 million in 2000-01. In addition to these overtime payments, government employees were owed $4.2 million as of 31 March 2001 for overtime earned but not yet paid. While this amount is also increasing each year, Government does not know how much of this unpaid overtime was accumulated in 2000-01, or how much of it was used. The problem results from inadequacies in the systems used to record employee overtime. Without this information, it is not possible to adequately manage overtime incurred by Government departments.

Our review also indicated that Government exceeded its overtime budget for the last three fiscal years by $4.4 million, $5.6 million and $5.5 million respectively. Additional funds were transferred from other program areas and the Contingency Reserve Fund to make these additional payments.

I am recommending that Government review overtime incurred to ensure it is reasonable and to determine whether changes can be made to reduce the amount of overtime being incurred, while at the same time implement information systems to provide details of overtime.

6. Fire Suppression and Communications Expenditures

For the fiscal years 1999 to 2001, actual expenditures of the Department of Forest Resources and Agrifoods of $138.4 million exceeded the original budgets of $127.2 million by $11.2 million. Increases in the Fire Suppression and Communications program expenditures accounted for approximately $9.3 million of the $11.2 million.

We reviewed expenditures of the Fire Suppression and Communications program for 2000-01. During that year, Government transferred $1.22 million from its contingency reserve of $30 million to this program *"to cover emergency fire suppression cost overruns"*. In addition, the Department transferred $293,000 to this program from other Departmental programs. Our review indicated that $565,000 was spent for supplies from December 2000 to March 2001, after the normal fire season which ended mid-September. Some of this money was used to buy items such as ATVs, boats, motors and trailers during the latter part of March 2001, which is the last month of the fiscal year. I question whether such expenditures could be regarded as *"emergency"* fire suppression costs for 2000-01. Furthermore, the Department contravened the *Financial Administration Act* by purchasing this equipment from funds provided by the Legislature for supplies.

In addition, the Department contravened the *Financial Administration Act* by purchasing equipment for wildlife compliance from funds provided by the Legislature for supplies for the Fire Suppression and Communications program.

7. Health Care Boards

As in previous years, I continue to monitor the financial position and operating results of the Province's eight hospital boards and four community health care boards. In addition, my Office audits, on a cyclical basis, individual health care boards. My reviews during the past year indicated the following:

- The financial position and operating results of the eight hospital boards continue to deteriorate although funding to the boards has increased from $645.6 in 1999-00 to $682.3 million in 2000-01. For 2000-01, the 8 hospital boards incurred deficits totalling $60.5 million for that year.

  In addition, the eight hospital boards had liabilities of $412.2 million as of 31 March 2001. Assuming the 8 hospital boards can collect amounts owing to them of $50 million, this leaves $362.2 million to be funded by Government. This $362.2 million includes the $145 million used to restructure the St. John's Health Care Corporation.

- The financial position and operating results of the 4 health and community services boards also continue to deteriorate although funding to these boards has increased from $148.6 million in 1999-00 to $162.1 million in 2000-01. For 2000-01, the 4 boards incurred operating deficits totalling $11.7 million for that year.

  In addition, as of 31 March 2001, the 4 boards had liabilities of $26.8 million. Assuming the 4 boards can collect amounts owed to them totalling $7 million, this leaves $19.8 million to be funded by Government.

- During the past year, we also reviewed one of the programs, namely the Child Welfare Program, which is delivered by Health and Community Services - St. John's Region. The cost of the Child Welfare program has been increasing for many years. Despite the provision of additional funding over the years, the cost of the program generally exceeds its budget each year.

While some of the expenditures of this program are mandatory (such as standard monthly rates paid to the care-givers), many of the expenditures are discretionary. While the audit identified a variety of issues such as non-compliance with policy, the most significant issue identified during our audit was the lack of good financial information for management purposes. Much of the financial information required during the audit, and which I expected would be on file, was not available and had to be prepared by my staff. Without proper financial information, Board staff cannot review and analyze how funding was spent, and identify future actions including options for expenditure reductions, policy changes, or expansion of services.

8. Community Corrections

During the year we completed a review of the Community Corrections Branch of the Department of Justice. We reviewed the processes in place relating to probation of adult offenders. Offenders on probation are required to be assessed by the Department to determine the offender's level of risk and rehabilitative needs. The level of risk determines the frequency of contact with probation officers ranging from no contact for offenders assessed as low risk to bi-weekly contact for offenders considered to be high risk. Our review indicated that:

- The Department is not complying with its policies regarding the assessment of offender risk in that not all offenders have an initial risk assessment completed. Although policy also requires that offenders have a risk reassessment every six months, in many instances this reassessment is not performed.
- Not all adult offenders are being visited and/or monitored as required.
- The computerized system is being used to determine the level of risk for adult offenders. However, the system does not always produce results consistent with policy and has to be manually overridden by Probation Officers.

As a result, some offenders who have been assessed as high risk are in the community without the required supervision.

9. Royal Newfoundland Constabulary - Firearms Review

In 1998, the Royal Newfoundland Constabulary were permitted to wear firearms as part of their regular uniform. The Select Committee of the House of Assembly which recommended the new arming policy also recommended that a firearms audit be performed annually and submitted to the House of Assembly. As a result, this is my third annual firearms audit.

I conclude that the Royal Newfoundland Constabulary has, for the most part, made improvements since 1998 regarding the management and control of its firearms and ammunition. However, our review for 2001 identified a number of issues which should be addressed. The most serious issues are as follows:

- We identified 10 members of the Royal Newfoundland Constabulary who had each others firearms stored in their firearm locker. In addition, grips are being installed on firearms making it impossible to readily read the serial number. We removed a few of these grips and identified 1 instance (included in the 10 above) where the serial number on the firearm confirmed that an Royal Newfoundland Constabulary member did not have the firearm which has been signed out to them. It is a concern that members with a firearm other than that assigned to them could go undetected during monthly firearm locker inspections.

- Although Royal Newfoundland Constabulary policy requires that all members receive, on an annual basis, a requalification for the use of firearms, we found that 114 members had not received all of the required training.

10. Coastal Labrador Marine Services

The provision of intra-provincial ferry service is a major Government program that impacts approximately 30,000 people along the coast of Newfoundland and Labrador.

The intra-provincial ferry service has undergone major changes over the past 10 years from 8 services in 1992 costing $13 million to 16 services costing $46 million in 2000-01. The biggest change occurred in 1997 when the provincial government assumed responsibility for marine freight and passenger services on and to the coast of Labrador. One of the major issues facing government is controlling the costs of providing these services.

Several aspects of the ferry services were reviewed over the past year and the following issues were identified:

- We reviewed the status of the Labrador Transportation Initiative Fund established in 1997 to administer $348 million received from the Federal Government when the Provincial Government took over the Labrador freight and passenger ferry services. At that time, Government projected that the amount of money in the Fund was sufficient to operate the ferry services in perpetuity and fund the construction of the Trans-Labrador Highway.

  However, up to 31 March 2001 the actual costs of providing the Labrador freight and passenger ferry services has been higher than the amounts initially projected, and expenditure projections for 2001-02 and 2002-03 have now been increased. As a result, the Labrador Transportation Initiative Fund is expected to be depleted prior to 2014-15 and, at the level of expenditures currently projected, will not be sufficient to fund the Labrador freight and passenger ferry services in perpetuity as initially planned.

- We also reviewed the expenditures of the two coastal Labrador ferry services provided by the MV Sir Robert Bond and the MV Northern Ranger, as well as the related wharf and terminal expenses. Total expenditures for these services in 2000-01 was $10 million which consisted of payments to the contractor for standard daily operating rates for the two vessels, fuel for the ferry vessels, and refit costs.

  Our review indicated that, in addition to payments provided for under the contract, the contractor was paid approximately $1 million for refit work on the two ferry vessels which was not tendered as required by the *Public Tender Act*. While the $1 million was paid over a three year period, the amounts paid increased each year with $91,000 paid in 1998-99, $323,000 paid in 1999-00, and $576,000 paid in 2000-01.

  The contract provides for a refit period of approximately four weeks per year during which the Department takes possession of the vessels, and the contractor ceases to receive daily rates.

  Our review indicated that the contractor received a daily rate for every day between the commencement of the contract on 18 May 1998 to 31 March 2001, with the exception of 28 days when the ferry vessel was on dry dock in St. John's in 2000-01.

Other issues relating to refit work were also identified and these are included in the Audit Report on the Coastal Labrador Marine Services.

11. Government's Unfunded Pension Liability

One of the biggest issues confronting Government is the unfunded pension liability of Government's four pension plans which was $3.3 billion as of 31 March 2001. The unfunded pension liability is the total pension benefits earned by plan members as of 31 March 2001 but for which there are no assets available to pay these benefits. As a result, under current legislation Government is legally liable to pay these unfunded pension benefits as they come due. The unfunded liabilities relating to the four plans are as follows: the Members of the House of Assembly Pension Plan - $46 million, the Uniformed Services Pension Plan - $202 million, the Public Service Pension Plan - $1.5 billion and the Teachers' Pension Plan $1.6 billion.

Two of the four plans, the Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan, presently have no assets so Government is paying the deficiency between pension contributions and benefits paid to members of these plans. For 2000-01, Government paid $10.4 million in pension plan deficiencies for these two plans.

The third plan, the Public Service Pension Plan, presently has assets to pay the pension benefits to its members. However, in an effort to address the significant unfunded liability, Government has committed to make lump sum payments to the plan to extend the life of the Plan. Specifically, Government has agreed to make special payments to the Public Service Pension Plan of $40 million annually to 2001-02, $45 million in 2002-03 and $60 million annually thereafter until Government's share of the unfunded liability established at 31 December 2000 is extinguished.

The fourth plan, the Teachers' Pension Plan, presently has assets to pay the pension benefits to its members. However, in an effort to address the significant unfunded liability, Government has also committed to make payments of $76 million annually into the Teachers' Pension Plan until the remaining balance of an initial obligation of $815 million, plus interest, has been paid. This is expected to increase the life of the plan to 2016. However, the projected unfunded liability of the Plan will exceed $3.3 billion at that time.

While Government's initiatives will have a favorable impact on the Public Service Pension Plan and the Teachers' Pension Plan, I remain concerned with the extent of the Province's overall unfunded pension liability which was $3.3 billion as of 31 March 2001.

In addition, pension legislation requires an actuarial valuation be completed on each of the four pension plans every three years. Only the Teachers' Pension Plan has had an actuarial valuation completed within the last three years.

12. MHA Constituency Allowance

Each member of the House of Assembly is provided with an accountable constituency allowance which is to be used for expenditures relating to their district. The *Financial Administration Act* requires that all documentation as support for payment of public monies be provided to the Comptroller General for examination before payment is made. The *Auditor General Act* requires that I audit payments of public monies to determine whether the payments made were in accordance with the *Financial Administration Act*.

The Auditor General has been auditing the allowances paid to members of the House of Assembly for many years. I have been auditing these allowances since my appointment as Auditor General in 1992, and my predecessors audited them before that time. For decades, the Auditor General has been provided with access to all supporting documentation relating to payments of public money, including the allowances paid to the members of the House of Assembly.

In May 2000, the *Internal Economy Commission Act* was amended so that the Commission could determine what documentation had to be provided to the Comptroller General in support of payment for MHA constituency allowances. Consequently, the Commission decided to cease submitting supporting documentation to the Comptroller General. Instead, this documentation was retained at the House of Assembly and not filed with all of the other Government supporting documentation.

On 4 October 2001, I met with the Speaker of the House of Assembly to discuss issues identified during preliminary audit work on MHA constituency allowances. At that time I presented information relating to the purchase of artwork and entertainment expenses. I also requested access to supporting documentation that was now filed at the House of Assembly. On 23 October 2001, I received a letter from the Speaker of the House of Assembly informing me that the Commission of Internal Economy was not obligated to comply with my request. As a result, I was refused access to the supporting documentation and asked to cease my audit work. Accordingly, I am unable to fulfill my responsibilities under the *Auditor General Act* and complete my audit of payments made to MHAs from public monies.

1.4 Acknowledgments

I express my appreciation to the officials of Government departments, agencies of the Crown and other entities for the cooperation and assistance provided to my staff during the performance of our work.

I acknowledge the cooperation and assistance provided to my Office during the year by the officials of the Treasury Board Secretariat and the Department of Finance.

I also extend my appreciation to my staff for their outstanding work and the professional manner in which they have carried out their responsibilities.

CHAPTER
2
COMMENTS ON PUBLIC SECTOR ACCOUNTABILITY

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Comments on Public Sector Accountability

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2.1 Framework of Accountability

Introduction

In my previous Reports to the House of Assembly, I have expressed concern over the lack of information being provided to the House of Assembly by government departments, agencies of the Crown and Memorial University of Newfoundland all of which are funded primarily by the public purse. Since $4 billion in funding is approved annually for these organizations during the annual budgetary process, the House of Assembly (and the public) should receive information on how each organization plans to spend its funding, how it actually spent the funding provided, and what results the funding achieved. This information would provide for the accountability of Government departments, Crown agencies, and Memorial University.

For each of the past ten years I have recommended the implementation of a legislated accountability framework for all public sector entities in the Province, including government departments, all Crown agencies and Memorial University. I have also recommended that the framework include a strategic and operational planning process, clearly defined objectives, measurement criteria, a financial budget and a reporting system which provides appropriate information at various levels. The reporting process should include reports to the House of Assembly.

Reports tabled in the House of Assembly

Again this year, as in previous years, very little information is being provided to the House of Assembly. While considerable attention is given to the government's budget, there is a lack of emphasis on receiving and reviewing information on how departments, Crown agencies and Memorial University intended to spend the monies which were approved during the budget process and compared with how they actually spent those monies. For example, in 1999-00, there were 84 Crown agencies, of which 45 received government funding. These 45 Crown agencies, along with the 18 Government departments, received and spent approximately $4 billion. Of these, only 4 Crown agencies, which received in total $180 million, had reports tabled in the House of Assembly. Neither the other 41 Crown agencies nor the 18 government departments which spent the remaining $3.82 billion provided a Report to the House of Assembly. In addition, of the 39 Crown agencies which did not receive government operating grants only 4 had annual reports tabled in the House of Assembly.

Accountability of Government Departments, Crown Agencies, and Memorial University

Government has undertaken some initiatives which are intended to address the present lack of accountability of government departments, Crown agencies and Memorial University. These can be summarized as follows:

- For government departments, Cabinet Secretariat issued *Guidelines for the Preparation of Departmental Plans 2001-2002 to 2003-2004* in November 1999. Departments were required to submit plans to Cabinet Secretariat by 31 January 2000 on their 1999-2000 Plan. Of the 18 departments of Government 13 had prepared strategic plans. In addition, as a result of changes in departmental responsibilities 3 departments had draft strategic plans and 2 were in the process of finalizing their plans. However, we were informed that these plans are to remain internal within Government. They have not been tabled in the House of Assembly and there is no intention, at this time, to release them publicly.

- For Crown agencies and Memorial University, Treasury Board Secretariat issued *"Achieving Excellence 2000 - A Guidebook for Improved Accountability of Public Bodies"* and *"Achieving Excellence 2000 - A Handbook for the Improved Governance of Public Bodies"* in August 2000. These two documents provide an overview of some key governance principles and are intended as a reference source for public bodies. The documents require that each minister will determine those measures to be applied to specific entities under their jurisdiction. However, at the present time there is no legislation supporting the documents and implementation is at the discretion of the minister responsible. Therefore, the system as envisioned by these documents is not mandatory at the present time.

Comparison with Other Jurisdictions

Our review of the legislation of the other jurisdictions has disclosed that Canada and the other provinces have some form of legislation which requires that departments and Crown agencies table annual reports on their operations. In addition, in a number of provinces Treasury Board (Management Board) has provided formal directives relating to the preparation and tabling of annual reports. Our review has disclosed that in all jurisdictions, except this Province, an annual report is required to be tabled in the legislature by departments and Crown agencies. Figure 1 outlines the results of our review.

Figure 1

Accountability and Reporting Legislation in Canada

Jurisdiction	Legislation	Requirement
British Columbia	*Budget Transparency and Accountability Act.*	The *Act* requires annual performance reports, strategic plans and performance plans for government, each ministry and each government organization.
Alberta	*The Government Accountability Act.*	The *Act* requires business plans and an annual accountability report for government, each ministry and each accountable organization.
Saskatchewan	*The Government Organization Act.* Legislation creating departments and Crown agencies.	The *Act* requires departments to report to the Legislative Assembly on the work of the department Departmental legislation and the *Financial Administration Act* require annual reporting. Legislation creating Crown agencies requires them to table their annual reports in the Legislative Assembly.
Manitoba	*The Financial Administration Act.*	The *Act* requires that departments and agencies report on their operations. In addition, government issues policies which outline guidelines for the departments and agencies to follow.
Ontario	The legislation which creates the departments and agencies (as an example the *Agriculture and Food Ministry Act* and *Liquor Control Board Act*). Bill 46 "*An Act respecting the accountability of public sector organizations*" was tabled in the Legislature in May 2001 and has received first reading	The legislation requires annual reports on operations. A Management Board Directive requires every agency to prepare annual reports and annual business plans. If enacted this legislation will require all public sector organizations to prepare annual business plans and annual reports.
Quebec	*The Public Administration Act.*	The *Act* requires that each department or body must adopt a strategic plan which must be tabled in the National Assembly along with an annual report on the results obtained measured against the objectives set.

Figure 1

Accountability and Reporting Legislation in Canada

Jurisdiction	Legislation	Requirement
New Brunswick	The legislation which creates the departments and agencies (as an example the *Health Act*, the *Highway Act* and the *Legal Aid Act*).	The legislation requires annual reports on operations. In addition, Management Board Policy Directive requires the preparation of annual reports by all departments and agencies of the Public Service.
Nova Scotia	*The Financial Measures Act.*	The *Act* requires that government prepare business plans and file reports showing outcomes against the business plan.
	The Provincial Finance Act.	The Act requires all Crown agencies to submit annual business plans to the Legislature
	Other legislation (ie the *Health Authorities Act*).	The legislation requires health authorities to prepare business plans and report on results achieved with respect to performance objectives established.
Prince Edward Island	*The Financial Administration Act.*	The *Act* states that all departments and entities must submit an annual report which includes a statement of goals achieved during the reporting period.
Canada	*The Financial Administration Act.*	The *Act* requires Crown Corporations to table reports. The *Act* also requires tabling of reports on Special Examinations every five years.
Newfoundland and Labrador	There is no legislation with the exception of a few enabling acts (ie. the *Public Service Commission Act*) which require that the entity created produce annual reports.	

Source: Canadian legislation all jurisdictions

Summary

Government has not made sufficient progress in implementing a framework of accountability for Government departments, Crown agencies and Memorial University.

While Government has undertaken some initiatives to improve accountability *within* Government, none of the initiatives undertaken by Government require any of the plans, information or reports to be tabled in the House of Assembly. True accountability requires that this information be provided to the House of Assembly.

Recommendation

Government should draft legislation for consideration by the House of Assembly which requires that Government and all of its departments and Crown agencies including Memorial University of Newfoundland be held accountable to the Legislature for their use of public resources. This legislation should, as a minimum, require that Government, its departments and each of its other entities table annual accountability reports in the House of Assembly on their financial and operational results compared with approved plans.

CHAPTER
3
COMMENTS ON AUDITS AND ADDITIONAL EXAMINATIONS

CHAPTER
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Comments on Audits and Additional Examinations

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3.1 Monitoring Agencies of the Crown

Introduction

As at 31 March 2001 there were approximately 151 (2000 - 154) agencies of the Crown in the Province. Of these, 85 (2000 - 84) were required to prepare annual financial statements, while the remaining 66 (2000 - 70) were considered non-financial and were not required to prepare financial statements. Any expenditures related to the operation of these 66 entities are included with those of the government department responsible for the entity and are audited annually as part of our audit of the public accounts of the Province.

Of the 85 entities required to prepare annual financial statements, 31 (2000 - 31) were audited by our Office while 52 (2000 - 53) were audited by private sector auditors. Two of the 85 entities have never submitted audited statements in accordance with governing legislation. These are as follows:

1. Memorial University Foundation

The Memorial University Foundation operates under the authority of the *Memorial University Foundation Act*. Section 17 of this Act requires the Board to prepare and submit an annual report to the Minister which includes audited financial statements. Department of Youth Services and Post Secondary Education staff indicated that no audited financial statements have been received since the Foundation was formed in 1997.

2. Newfoundland and Labrador Occupational Therapy Board

Newfoundland and Labrador Occupational Therapy Board operates under the authority of the *Occupational Therapist Act*. It is governed by a five member board of directors appointed by the Minister of Health and Community Services. Section 3(5) of the Occupational Therapists Regulations requires the secretary/treasurer of the Board to prepare and submit audited financial statements at the Annual General Meeting. We were informed that financial statements are prepared and included as part of the annual report to the Board; however, these financial statements are not audited as required by the Act.

Compliance with Section 14

Most agencies of the Crown do not have any requirement to report to the House of Assembly on the discharge of their responsibilities. As a result, a major role of this Office is to monitor these entities in order to provide some accountability to the House of Assembly. Section 14 of the *Auditor General Act* requires the auditor of an agency of the Crown or a Crown controlled corporation to deliver to the Auditor General, after completion of the audit, a copy of the auditor's report, audited financial statements and recommendations to management. These financial statements and management letters along with our Office's audits of Crown agencies provide the basis for our monitoring of all Crown agencies.

As at 18 January 2002, the required information had not been received from the private sector auditors for 7 of the 52 entities. Figure 1 provides details of the information received.

Figure 1

Monitoring Agencies of the Crown
Crown Agencies Audited by Private Sector Auditors
Information for Years Ended
1 May 2000 to 30 April 2001

Information	Health Care	Education	Other	Total
Audited financial statements received	14	12	19	45
Audited financial statements not received	2	1	4	7
Total	16	13	23	52

The 7 agencies noted in Figure 1, for which we have not received the required information from the private sector auditors, include the following:

- Health Labrador Corporation
- Memorial University of Newfoundland
- Memorial University of Newfoundland Pension Plan
- Multi-Materials Stewardship Board
- Multi-Materials Stewardship Board Waste Management Trust Fund
- Newco IV Corporation
- St. John's Nursing Home Board

To date, information is not being received from the private sector auditors on a timely basis. On average, audits are completed and the auditors' reports signed within three months after the year end. However, the financial statements are not sent to our Office until another five months after the audit report date, and in most cases, only after telephone follow-up or written correspondence from our Office.

Our Office was responsible for auditing the financial statements for 31 agencies of the Crown. As at 18 January 2002, the audit of the

Fisheries Loan Board of Newfoundland was the only one of the 31 entities that had not been completed for the year ended 31 March 2001. This was mainly due to client delays in having information and draft statements available for audit.

Monitoring of Financial Information

In monitoring all agencies of the Crown, we performed an analytical review of the audited financial statements which were available to us. In order to facilitate useful comparisons and analysis of data, a number of sectors were established for grouping similar entities. These sectors and financial information of the various agencies of the Crown are presented in Figure 2 and Figure 3. These figures do not include financial information for the four Crown agency subsidiaries that have their financial statements consolidated with their parent Crown agency and two for which no financial information has yet been received.

Figure 2

Crown Agencies
Combined Financial Position
Periods Ended 1 May 2000 to 30 April 2001
($000)

Sector	Entities	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity
Primary, Elementary and Secondary Education	12	$ 22,521	$ 622,333	$ 32,789	$ 102,839	$ 509,226
Colleges and Universities	2	74,090	176,828	184,122	17,608	49,188
Hospitals and Nursing Homes	12	86,534	392,920	198,904	399,810	(119,260)
Community Health Boards	4	12,156	2,768	27,324	9,851	(22,251)
Financing Entities	7	246,016	1,364,425	67,501	320,301	1,222,639
Insurance Entities	5	22,469	360,781	6,734	559,422	(182,906)
Government Enterprises	11	177,438	2,051,010	391,536	1,164,181	672,731
Judiciary Entities	4	28,041	16,052	20,708	806	22,579
Pension Plans	2	29,733	2,732,188	14,667	Nil	2,747,254
Other Entities	20	228,205	410,365	27,901	344,087	266,582
Total Crown Agencies	79	$ 927,203	$8,129,670	$ 972,186	$2,918,905	$5,165,782

Figure 3

Crown Agencies
Combined Operating Results
Periods Ended 1 May 2000 to 30 April 2001
($000)

Sector	Entities	Revenues	Expenditures	Surplus (Deficit)	Provincial Funding
Primary, Elementary and Secondary Education	12	$ 499,525	$ 532,987	$ (33,462)	$ 489,263
Colleges and Universities	2	323,076	321,935	1,141	175,329
Hospitals and Nursing Homes	12	833,950	900,145	(66,195)	749,004
Community Health Boards	4	166,543	178,240	(11,697)	163,847
Financing Entities	7	136,505	46,443	90,062	Nil
Insurance Entities	5	167,863	189,864	(22,001)	232
Government Enterprises	11	496,053	389,736	106,317	537
Judiciary Entities	4	40,381	38,425	1,956	5,456
Pension Plans	2	548,837	293,945	254,892	Nil
Other Entities	20	154,558	216,816	(62,258)	22,904
Total Crown Agencies	79	$ 3,367,291	$ 3,108,536	$ 258,755	$ 1,606,572

During our compilation and analysis of the above financial data, the following issues were highlighted:

- Of the 79 (2000 - 80) Crown entities analysed, 21 (2000 - 21) entities reported a total bank indebtedness of $71 million (2000 - $35 million).

- Financial information from prior years had to be used for a number of entities because the current audited financial statements had not been submitted to our Office or obtainable from other sources. These entities were:

  - Health Labrador Corporation
  - Memorial University of Newfoundland
  - Memorial University of Newfoundland Pension Plan

  Financial information for 31 March 2000 had to be used for the Fisheries Loan Board of Newfoundland as the audit for 31 March 2001 had not yet been completed.

- Four private sector auditors noted in the auditors' reports that the agencies of the Crown were not in compliance with generally accepted accounting principles regarding recording and amortizing capital assets. One auditor was unable to verify the completeness of donation revenue.

Monitoring Management Letters

Section 14 of the *Auditor General Act*, requires that, management letters prepared by private sector auditors, be submitted to our Office. Of the 52 entities audited by private auditing firms, 16 had no management letters issued, 29 had management letters, and 7 entities still had their management letters outstanding as they were not yet finalized.

Our review of these management letters identified two crown agencies with significant weaknesses. These were:

1. Central West Health Care Institutions Board

The external auditor identified a number of control weaknesses over long term resident revenues, receivables and trust funds. Also, no conclusion had been reached regarding an individual suspected of a misappropriation of Board funds discovered during the 1999-00 fiscal year audit.

2. Marble Mountain Development Corporation

The external auditor identified a number of significant control weaknesses over revenue and expenditures. In particular:

- Control weaknesses over revenue included inconsistent recording and posting of daily sales reports, lift tickets and special event tickets were not always reconciled to daily sales reports, certain revenues were not being receipted, and revenue coupons were not always numbered or date stamped.
- Control weaknesses over expenditures included purchase orders not always completed or approved, invoices were not always stamped or initialled for verification of payment or receipt of goods, the use of cash to pay certain entertainment expenses, administrative mileage claims were not approved by appropriate officials and corporate vehicle usage was not monitored. The auditor also identified significant expenditures totalling $60,000 which were not approved by the Board and in one case, not publicly tendered.

For the year ended 30 April 2001, the Corporation incurred a $517,000 loss and reported an accumulated deficit of $466,000. The Corporation also reported a negative working capital of $1.3 million, which included bank indebtedness of $983,000. The Corporation stated in the notes to its audited financial statements that *"given the accumulation of operating losses and the deficiency of working capital, the Corporation's ability to continue as a going concern depends on continued support from its shareholder, the Province of Newfoundland, and its ability to restore and maintain its profitability"*.

Of the 31 Crown agencies audited by our Office during 2000-01, 6 entities had management letters issued with no control weaknesses reported, 13 had management letters with weaknesses reported, 6 entities had their draft management letters issued but responses are outstanding, 5 had management letters to be written and 1 audit has not yet been completed.

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Introduction

As part of our audit of the financial statements of the Consolidated Revenue Fund (CRF), we perform tests and reviews of the expenditures made by the various departments. Figure 1 outlines expenditures, by category, recorded in the Consolidated Revenue Fund financial statements for the years ended 31 March.

Figure 1

Consolidated Revenue Fund Expenditures
By Category
Years Ended 31 March
($ Millions)

Consolidated Revenue Fund Expenditures		
Category	**2001**	**2000**
Salaries and Benefits	324	312
Transportation and Communications	36	37
Supplies	57	50
Professional Services	193	55
Purchased Services	240	239
Property, Furnishings and Equipment	44	39
Allowances and Assistance	334	316
Grants and Subsidies	1,843	1,863
Debt Expenses	878	761
Information Technology	26	25
Bad Debts	28	30
TOTAL	**4,003**	**3,727**

Source: Consolidated Revenue Fund financial statements

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

During the past year, we obtained expenditure information from Government's accounting system relating to all expenditures of the Consolidated Revenue Fund. We performed a general review and analysis of amounts paid relating to: grants and subsidies; property, furnishings and equipment; purchased services; professional services; allowances and assistance; and transportation and communications. Details of the expenditures in each of these categories are provided as follows:

Grants and Subsidies

Government has established programs which provide grants or subsidies to various agencies of the Crown, private corporations and individuals. These payments are made to health care boards, for the operation of the Province's hospitals, to school boards, for the operation of the Province's schools and teachers' salaries, to the College of the North Atlantic and Memorial University of Newfoundland, and to certain agencies of the Crown for operational funding. Other grants and subsidies are paid to private corporations and individuals in accordance with Government support programs.

During the year we continued our process of monitoring and reviewing payments made for grants and subsidies. Figure 2 shows, by department, payments made for grants and subsidies for the year ended 31 March 2001 totalling $1.843 billion with comparative figures for the year ended 31 March 2000.

As the figure indicates, for the year ended 31 March 2000, payments for grants and subsidies were approximately $1.863 billion and represented approximately 50% of the total expenditures of the Consolidated Revenue Fund. For the year ended 31 March 2001, grants and subsidies amounted to approximately $1.843 billion or approximately 46% of the total expenditures of the Consolidated Revenue Fund.

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Figure 2

Grants and Subsidies Expenditures
By Department
Years Ended 31 March
($000's)

Grants and Subsidies Expenditures by Department		
Department	**2001**	**2000**
Health and Community Services	1,033,619	1,094,969
Education	503,198	663,359
Youth Services and Post Secondary Education	180,811	-
Municipal and Provincial Affairs	31,853	29,859
Industry, Trade and Rural Development	25,411	17,775
Human Resources and Employment	20,375	19,059
Newfoundland and Labrador Housing Corporation	10,181	2,000
Tourism, Culture and Recreation	6,809	5,379
Works, Services and Transportation	6,012	6,183
Justice	5,902	5,724
Finance	4,041	8,257
Labrador and Aboriginal Affairs	3,968	-
Mines and Energy	3,671	2,797
Forest Resources and Agrifoods	3,360	2,666
Fisheries and Aquaculture	2,507	2,170
Executive Council	1,169	1,518
Environment	225	81
Legislature	94	660
Government Services and Lands	59	63
Labour	28	-
Public Service Commission	5	4
TOTAL	**1,843,298**	**1,862,523**

Source: Government's Financial Information System

We also summarized the payments of grants and subsidies by the type of entity for the year ended 31 March 2001 with comparative figures for the year ended 31 March 2000. The results of this summary are outlined in Figure 3.

Figure 3

Grants and Subsidies Expenditures
By Type of Entity
Years Ended 31 March
($000's)

Types of Entities Receiving Grants and Subsidies		
Type of Entity	**2001**	**2000**
Hospitals and Health Services Boards	814,945	719,116
Teachers Payroll	345,591	342,823
Community Health Boards and Related Entities	195,882	178,099
School Boards and Related Entities	135,735	130,741
Memorial University of Newfoundland	125,392	131,425
Provincial College	58,245	56,344
Economic Renewal, Labour Market and Industry Support	54,225	35,532
Municipalities	31,853	29,859
Educational Agencies and Post Secondary Education Support	13,312	8,820
Newfoundland and Labrador Education Investment Corporation	11,883	5,550
Ferry Operations and Transportation Grants	11,244	7,692
Newfoundland and Labrador Housing Corporation	10,181	2,056
Provincial Information and Libraries Resources Board	7,061	8,285
Newfoundland Legal Aid Commission	5,665	5,579
Newfoundland Municipal Financing Corporation	3,000	5,000
Labrador Agreement and Native Peoples Support	2,489	6,186

Figure 3 (cont'd)

Types of Entities Receiving Grants and Subsidies		
Type of Entity	**2001**	**2000**
Agricultural Development	2,242	1,562
Canada Newfoundland Offshore Petroleum Board	2,172	1,162
Recreation and Sport	1,730	1,261
Culture and Heritage	1,189	997
Newfoundland and Labrador Film Development Corporation	670	600
Newfoundland Industrial Development Corporation	450	-
C. A. Pippy Park Commission	410	17
Newfoundland Medical Care Commission	-	178,154
Marble Mountain Development Corporation	-	3,269
Special Celebrations Corporation of Newfoundland and Labrador	-	670
Other Miscellaneous Grants	7,732	1,724
TOTAL	**1,843,298**	**1,862,523**

Source: Government's Financial Information System

Figure 4 provides the names of all entities which received grants and subsidies funding in excess of $10 million for the year ended 31 March 2001 with comparative figures for the year ended 31 March 2000.

Figure 4

Grants and Subsidies Expenditures
Payments in Excess of $10 million
Years Ended 31 March
($000's)

Entities Which Received in Excess of $10 Million		
Entity	**2001**	**2000**
Health Care Corporation of St. John's	333,567	312,407
Memorial University of Newfoundland	125,392	131,425
Western Health Care Corporation	102,982	89,341
Central West Health Care Corporation	64,324	57,815
Community Health - St. John's	64,184	60,202
College of the North Atlantic	58,245	56,344
Central East Health Care Corporation	51,268	43,431
Peninsulas Health Care Corporation	49,628	39,881
St. John's Nursing Home Board	48,109	45,722
Avalon Health Care Corporation	43,745	40,813
Labrador Health Services Board	36,855	31,051
Grenfell Regional Health Care Corporation	36,583	28,499
Eastern Regional Community Health Board	35,666	29,601
Central Newfoundland Regional Community Health Board	33,840	28,896
Western Newfoundland Regional Community Health Board	32,920	29,601
District #10 School Board	24,422	25,940
Canadian Blood Services	16,949	13,710
School District #6	12,062	11,267

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Figure 4 (cont'd)

Entities Which Received in Excess of $10 Million		
Entity	**2001**	**2000**
Newfoundland and Labrador Education Investment Corporation	11,883	5,550
School District #5	11,834	11,243
Avalon West School Board	10,617	12,423
Newfoundland and Labrador Housing Corporation	10,181	2,056
School District #3	10,062	9,336
Newfoundland Medical Care Commission	-	178,154
Grants under $10 million paid to over 4,600 entities or individuals in 2001 (2000 - over 6,300 entities or individuals)	617,980	567,815
TOTAL	**1,843,298**	**1,862,523**

Source: Government's Financial Information System

Property, Furnishings and Equipment

The Property, Furnishings, and Equipment category generally includes capital items such as equipment purchased for use by Government departments which will have a service life in excess of one year. This category also includes grants made by the Department of Health and Community Services to the various hospital and health care boards for the purchase of equipment. During the year ended 31 March 2001, the Province paid $25.8 million (2000 - $24.9 million) to the hospital and health care boards for equipment which is included in the property, furnishings and equipment category. As indicated in Figure 1, payments for property, furnishings and equipment totalled $44 million for the year ended 31 March 2001. Figure 5 shows, by department, payments made for property, furnishings and equipment for the year ended 31 March 2001 with comparative figures for the year ended 31 March 2000.

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Figure 5

Property, Furnishings and Equipment Expenditures
By Department
Years Ended 31 March
($000's)

Property, Furnishings and Equipment Expenditures by Department		
Department	**2001**	**2000**
Health and Community Services	25,827	24,942
Works, Services and Transportation	9,442	8,502
Municipal and Provincial Affairs	3,309	135
Forest Resources and Agrifoods	1,497	1,700
Justice	1,186	751
Tourism, Culture and Recreation	687	486
Youth Services and Post Secondary Education	515	-
Government Services and Lands	280	263
Fisheries and Aquaculture	221	104
Environment	140	140
Executive Council	101	118
Education	92	1,055
Mines and Energy	78	134
Human Resources and Employment	75	108
Finance	66	36
Industry, Trade and Rural Development	62	187
Labour	52	-
Legislature	29	18
Public Service Commission	14	20
Labrador and Aboriginal Affairs	6	-
Consolidated Fund Services	-	11
TOTAL	**43,679**	**38,710**

Source: Government's Financial Information System

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

We also summarized the payments for property, furnishings and equipment to show all entities which received payments in excess of $1 million for the year ended 31 March 2001 with comparative figures for the year ended 31 March 2000. These entities are listed in Figure 6.

Figure 6

Property, Furnishings and Equipment Expenditures
Payments in Excess of $1 million
Years Ended 31 March
($000's)

Entities Which Received in Excess of $1 Million		
Entity	**2001**	**2000**
Health Care Corporation of St. John's	11,246	12,592
Western Health Care Corporation	3,081	2,725
Field Aviation Company Limited	2,950	2,000
Harvey & Co. Ltd.	1,791	-
Avalon Health Care Institutions Board	1,463	873
Central West Health Care Corporation	1,457	1,310
Peninsulas Health Care Corporation	1,366	1,154
The Salvation Army	1,176	1,176
Grenfell Regional Health Services	1,077	674
Central East Health Care Corporation	1,028	1,114
Hickman Motors Limited	960	2,742
Avalon Ford Sales Limited	690	1,086
Metalwork Ltd.	647	1,040
College of the North Atlantic	500	1,000
Payments under $1 million to over 500 entities in 2001 (2000 - over 500 entities)	14,247	9,224
TOTAL	**43,679**	**38,710**

Source: Government's Financial Information System

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Purchased Services

Purchased services includes such services as heat and light, general maintenance, printing, vehicle rentals and repairs, advertising, and insurance. As indicated in Figure 1, payments for purchased services totalled $240 million for the year ended 31 March 2001. Figure 7 shows, by department, payments made for purchased services for the year ended 31 March 2001 with comparative figures for the year ended 31 March 2000.

Figure 7

Purchased Services Expenditures By Department Years Ended 31 March ($000's)

Purchased Services Expenditures by Department		
Department	**2001**	**2000**
Works, Services and Transportation	193.361	194,087
Forest Resources and Agrifoods	8.705	8.093
Youth Services and Post Secondary Education	7.193	-
Tourism, Culture and Recreation	6.286	5,960
Justice	5.463	5.162
Municipal and Provincial Affairs	3.616	3,752
Government Services and Lands	2.715	2.111
Industry, Trade and Rural Development	2.297	3,096
Education	1.706	9,354
Human Resources and Employment	1,575	1,782
Mines and Energy	1.556	1,019
Fisheries and Aquaculture	1,442	1.022
Executive Council	1.188	1.104
Health and Community Services	724	482
Legislature	715	616
Environment	476	554
Consolidated Fund Services	446	519
Finance	256	197
Public Service Commission	194	178
Labour	187	-
Labrador and Aboriginal Affairs	41	-
TOTAL	**240,142**	**239,088**

Source: Government's Financial Information System

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

We also summarized the payments for purchased services to show all entities which received payments in excess of $1 million for the year ended 31 March 2001 with comparative figures for the year ended 31 March 2000. These entities are listed in Figure 8.

Figure 8

Purchased Services Expenditures
Payments in Excess of $1 million
Years Ended 31 March
($000's)

Entities Which Received in Excess of $1 Million		
Entity	**2001**	**2000**
S M Construction	15,225	21,809
Johnson Construction Ltd.	10,688	3,109
RDN Construction	8,857	1,799
MCNamara Construction Company	8,611	6,888
Labrador Construction Limited	7,357	10,733
Provincial Paving	6,924	3,329
Western Construction Co. Ltd	6,233	7,167
Newfoundland Power	6,016	5,858
Penney Paving	5,481	8,744
Federal - Provincial Contractors	4,990	6,294
Labrador Marine Inc.	4,798	-
Canship Limited	4,375	4,311
Municipal Construction Ltd.	4,216	7,910
EBC Inc.	3,924	-
J-1 Contracting Limited	3,795	3,377
Bonne Bay Contractors	3,569	514
Humber Valley Paving	3,526	2,935
10663 Newfoundland Limited	3,464	3,780
H. J. O'Connell Construction Ltd.	3,199	3,595
Olympic Construction Ltd.	3,175	-
St. John's Dockyard Limited	3,126	529
Colby Construction Ltd.	2,754	13,784
Terra Nova Industries Ltd.	2,724	2,980
Fisheries Marine Institute	2,624	1,044
College of the North Atlantic	2,505	2,895
Bristol Communications Ltd.	2,469	3,219
Chard's Construction Ltd.	2,280	472
Corner Brook Pulp and Paper Ltd.	2,145	901

Figure 8 (cont'd)

Entities Which Received in Excess of $1 Million		
Entity	**2001**	**2000**
Glenn Corp Ltd.	2,039	1,437
Health Labrador Corporation	1,972	-
BCL Construction Ltd.	1,915	2,297
Abitibi Consolidated Inc.	1,853	1,217
Trident Construction Limited	1,812	765
Island Aggregates & Ready Mix	1,772	90
Concord Paving Limited	1,751	1,059
W & J Construction Ltd.	1,561	-
Marsh Canada Ltd.	1,479	456
Central East Health Care Board	1,470	-
Tristar Mechanical Ltd.	1,383	3,273
Crown Paving	1,239	317
Adams Construction (1975) Ltd.	1,223	1,483
Irving Oil	1,221	1,450
Tech Construction Ltd.	1,168	37
Mariner Engineering	1,160	1,345
Nova Services Ltd.	1,097	1,100
Newfoundland and Labrador Hydro	1,052	845
Midland Construction	1,052	677
Kelloways Construction	1,010	453
Puddister Trading Company Ltd.	1,007	1,122
Friede Goldman Newfoundland Ltd.	859	1,545
Newfound Construction Ltd.	819	1,508
Memorial University of Newfoundland	770	1,244
Northland Contracting Inc.	630	1,631
Marco Services Ltd.	570	5,291
Council of Higher Education	526	1,637
Brook Enterprises Inc.	512	1,586
Marine Contractors Inc.	101	1,180
Northern Cruiser Ltd.	-	1,945
Pyramid Construction	-	1,862
Coady's Construction and Excavating Ltd.	-	1,814
Payments under $1 million to over 5,500 entities or individuals (2000 - over 5,400 entities or individuals)	66,069	70,446
TOTAL	**240,142**	**239,088**

Source: Government's Financial Information System

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Professional Services

Professional services generally include the fees and expenses of those engaged in a specialty profession such as accountants, doctors, lawyers, and engineers who provide a service, a report or advice to Government. As indicated in Figure 1, payments for professional services totalled $193 million for the year ended 31 March 2001. Figure 9 shows, by department, payments made for professional services for the year ended 31 March 2001 with comparative figures for the year ended 31 March 2000.

Figure 9

Professional Services Expenditures
By Department
Years Ended 31 March
($000's)

Professional Services Expenditures by Department		
Department	**2001**	**2000**
Health and Community Services	134,646	1,555
Justice	41,188	38,170
Works, Services and Transportation	5,906	5,164
Consolidated Fund Services	3,932	3,102
Industry, Trade and Rural Development	1,556	1,072
Municipal and Provincial Affairs	871	939
Executive Council	821	700
Labour	811	-
Mines and Energy	670	649
Forest Resources and Agrifoods	668	700
Environment	650	1,536
Tourism, Culture and Recreation	399	352
Education	395	393
Human Resources and Employment	221	318
Public Service Commission	188	120
Government Services and Lands	178	102
Finance	164	98
Youth Services and Post Secondary Education	131	-
Labrador and Aboriginal Affairs	115	-
Legislature	38	114
Fisheries and Aquaculture	33	42
TOTAL	**193,581**	**55,126**

Source: Government's Financial Information System

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

We also summarized the payments of professional services to show all entities or individuals who received payments in excess of $500,000 for the year ended 31 March 2001 with comparative figures for the year ended 31 March 2000. These entities are listed in Figure 10.

Figure 10

Professional Services Expenditures
Entities or Individuals Paid in Excess of $500,000
Years Ended 31 March
($000)'s

Entities or Individuals Paid in Excess of $500,000		
Entity	**2001**	**2000**
Receiver General For Canada (RCMP Contract etc.)	37,666	35,254
Medical Practice Associates	12,427	29
HSC Associated Radiologists	3,063	-
Radiology Group - St. Clare's	2,260	-
Nephrology Partnership	1,423	-
Agra Monenco Atlantic Inc.	1,332	776
xwave (Newtel Information Solutions)	837	1,008
Bae-Newplan Group Ltd	812	695
Pediatric Diagnostic Imaging	801	-
Carbonear General Hospital	695	-
Dr. Kevin N. Melvin	681	-
Newfoundland Design Associates Ltd.	609	1,065
Nfld. Radiological Associates	570	
EDM Consultants	479	573
Payments under $500,000 to over 1,700 entities or individuals (2000 - over 750 entities or individuals)	129,926	15,726
TOTAL	**193,581**	**55,126**

Source: Government's Financial Information System

Allowances and Assistance

Allowances and assistance expenditures include costs relating to such items as: allowances for Members of the House of Assembly, social assistance allowances paid to individuals, out of court settlements, and allowances paid on behalf of individuals to organizations. As indicated in Figure 1, payments for allowances and assistance totalled $334 million for the year ended 31 March 2001. Figure 11 shows, by department, payments made for allowances and assistance for the year ended 31 March 2001 with comparative figures for the year ended 31 March 2000.

Figure 11

Allowances and Assistance Expenditures
By Department
Years Ended 31 March
($000's)

Allowances and Assistance Expenditures by Department		
Department	**2001**	**2000**
Human Resources and Employment	223,402	219,058
Health and Community Services	81,787	65,802
Youth Services and Post Secondary Education	20,322	-
Legislature	4,893	4,891
Justice	1,995	2,981
Education	885	22,697
Municipal and Provincial Affairs	175	175
Works, Services and Transportation	129	252
Public Service Commission	122	112
Labour	61	-
Executive Council	20	32
Forest Resources and Agrifoods	20	20
Environment	-	60
TOTAL	**333,811**	**316,080**

Source: Government's Financial Information System

We also summarized the payments of allowances and assistance to show all entities or individuals who received payments in excess of $500,000 for the year ended 31 March 2001 with comparative figures for the year ended 31 March 2000. These entities are listed in Figure 12.

Figure 12

Allowances and Assistance Expenditures
Entities paid in Excess of $500,000
Years Ended 31 March
($000's)

Entities Which Received in Excess of $500,000		
Entity	**2001**	**2000**
xwave	69,005	58,045
Medical Services Insurance	1,583	-
Minister of Finance (Ontario)	1,354	2
Health Care Corporation of St. John's	1,262	1,191
Memorial University of Newfoundland	874	745
Association for New Canadians	673	542
Provincial Treasurer of Alberta	559	-
The Salvation Army - Wiseman Centre	519	451
Fewers Ambulance Service	420	581
Chalker, Green and Rowe (In Trust)	-	1,000
O'Dea Earle	-	712
Miscellaneous amounts under $500,000 paid to entities or individuals	257,562	252,811
TOTAL	**333,811**	**316,080**

Source: Government's Financial Information System

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Transportation and Communications

Transportation and communications expenditures include costs relating to such items as: postage, freight, ambulance and air services, telecommunication services and travel for ministers, government employees and others. As indicated in Figure 1, payments for transportation and communications totalled $36 million for the year ended 31 March 2001. Figure 13 shows, by department, payments made for transportation and communications for the year ended 31 March 2001 with comparative figures for the year ended 31 March 2000.

Figure 13

Transportation and Communications Expenditures By Department
Years Ended 31 March
($000's)

Transportation and Communications Expenditures by Department		
Department	**2001**	**2000**
Works, Services and Transportation	9,399	9,129
Forest Resources and Agrifoods	3,968	6,581
Justice	3,271	3,229
Tourism, Culture and Recreation	2,656	1,878
Government Services and Lands	2,034	2,013
Human Resources and Employment	2,026	2,354
Industry, Trade and Rural Development	2,012	1,963
Education	1,742	1,903
Executive Council	1,477	1,819
Mines and Energy	1,361	1,301
Health and Community Services	1,201	969
Fisheries and Aquaculture	1,002	1,130
Municipal and Provincial Affairs	681	683
Finance	605	640
Labour	552	-
Legislature	542	511
Youth Services and Post Secondary Education	542	-
Environment	463	1,012
Labrador and Aboriginal Affairs	445	-
Consolidated Fund Services	212	186
Public Service Commission	155	146
TOTAL	**36,346**	**37,447**

Source: Government's Financial Information System

We also summarized the payments for transportation and communications to show all entities which received payments in excess of $100,000 for the year ended 31 March 2001 with comparative figures for the year ended 31 March 2000. These entities are listed in Figure 14.

Figure 14

Transportation and Communications Expenditures
Entities Paid in Excess of $100,000
Years Ended 31 March
($000's)

Entities Which Received in Excess of $100,000		
Entity	**2001**	**2000**
Cable Atlantic	2,947	11
Universal Helicopters Nfld. Ltd	2,637	3,686
Postage by Phone	1,562	2,047
Newfoundland Telephone Company (Contract)	1,312	4,722
Canadian Helicopters Limited	1,267	1,047
Canada Post Corporation	1,246	641
10663 Nfld Limited	1,035	1,113
Newtel Mobility Limited	1,024	1,015
Newtel Communications Inc.	830	1,699
Harvey's Travel	783	800
Legrow's Travel	615	419
Newfoundland and Labrador Air Transport Ltd.	313	360
Supermarine Aircraft	300	-
Newfoundland Helicopters Ltd.	287	362
Provincial Airlines Limited	285	315
Telemedicine Centre	264	342
Cougar Execujet	247	142
Newfoundland and Labrador Hydro	201	180
City of St. John's	177	176
Gouverment Du Quebec	-	244
Cougar Helicopters Ltd.	-	161
Expandair	-	115
Hiteck Communications Ltd.	-	112
Miscellaneous amounts under $100,000 paid to over 7,700 individuals or entities (2000 - to over 7,300 individuals or entities)	19,014	17,738
TOTAL	**36,346**	**37,447**

Source: Government's Financial Information System

3.3 Government's Results of Financial Operations

Introduction

Each year a budget document is debated and approved in the House of Assembly. This document outlines Government's budgeted revenues and expenditures and its surplus or deficit for the fiscal year on a cash basis. This budget document represents financial planning information published by Government which focuses on its finances as set out in one government fund called the Consolidated Revenue Fund. The Consolidated Revenue Fund represents the activities of the Departments of Government and does not include all of the activities of Government's Crown agencies. The budget document serves as one of the means by which Government is held accountable for its activities in any given year. In accordance with the *Financial Administration Act*, Government is required to table its financial statements which outline the actual revenues and expenditures along with the budget approved by the House of Assembly.

Conclusions

This year, I am again expressing my concern with the manner in which the Government is calculating its surplus or deficit. Specifically, I am concerned about the way Government can "adjust" its actual cash surplus or cash deficit through arbitrary Government decisions about which revenues or expenditures to include. For the 2000-2001 fiscal year, if Government had chosen not to defer revenues which it had budgeted and had not incurred expenditures in contravention of the *Financial Administration Act*, it would have reported a cash surplus of $179.7 million for the Consolidated Revenue Fund rather than a cash deficit of $30 million.

I am also concerned that the budget or financial planning information published by Government focuses on an incomplete picture. This planning information is not complete because the budget is prepared on a cash basis of accounting and therefore, does not include many significant accounting adjustments or transactions required to provide the actual results of Government operations. In addition, the financial planning information published by Government focuses on its finances as set out in one government fund called the Consolidated Revenue Fund. That picture is not complete because other Government activity takes place outside of that Fund. This activity takes place in organizations including the Health Care Sector, the Education Sector, Newfoundland and Labrador Hydro and other organizations which are owned or controlled by, and are accountable to, Government.

3.3 Government's Results of Financial Operations

When all of these accounting transactions and activities of Government agencies outside of the Consolidated Revenue Fund are included, Government's actual deficit for the year ended 31 March 2001 is $349.7 million.

Findings

Revenue and Expenditure Adjustments

In March 2000, Government presented its budget for the year ended 31 March 2001 and estimated a cash deficit of $34.7 million for the Consolidated Revenue Fund. The actual cash deficit reported by Government for the Consolidated Revenue Fund for the year ended 31 March 2001 was $30.0 million. Figure 1 provides an analysis of the budgeted cash deficit of $34.7 million and the actual cash deficit of $30.0 million.

Figure 1

Budget and Actual Cash Deficit
31 March 2001
($Million)

	Budget	Actual	Difference
Revenues:			
Provincial Taxes	$1,447.7	$1,567.5	$119.8
Federal Equalization Payments	1,030.5	1,153.2	122.7
Federal - Other	371.4	367.6	(3.8)
Non-Tax Revenue	296.6	280.7	(15.9)
Related Revenue			
Hydro Dividends	121.0	53.3	(67.7)
Sinking Fund	116.0	26.8	(89.2)
Guarantee Fees	19.1	10.8	(8.3)
Recoveries - Loans and Advances	13.2	1.6	(11.6)
Other	288.8	259.9	(28.9)
Total Revenues	3,704.3	3,721.4	17.1
Total Expenditures	3,739.0	3,751.4	(12.4)
Cash Deficit	$34.7	$30.0	$4.7

Source: Consolidated Revenue Fund Financial Statements and Consolidated Revenue Fund Supplementary Statements and Schedules

3.3 Government's Results of Financial Operations

As Figure 1 indicates, actual revenues received for provincial taxes and federal equalization and other payments were significantly more than budgeted. As shown in Figure 2, the budget and actual revenues received for provincial taxes and federal equalization and other payments since 1997 are as follows:

Figure 2

Budget and Actual Revenues
Provincial Taxes and Federal Payments

Year	Budget	Actual	Difference
1997	$2,811 million	$2,908 million	$97 million
1998	$2,775 million	$3,180 million	$405 million
1999	$2,812 million	$3,006 million	$194 million
2000	$2,754 million	$2,918 million	$164 million
2001	$2,850 million	$3,088 million	$238 million

Source: Consolidated Revenue Fund Financial Statements and Consolidated Revenue Fund Supplementary Statements and Schedules

Although the actual revenues received from provincial taxes and federal equalization and other payments were significantly more than budgeted in these years, the actual cash deficit only varied from the budgeted deficit in the range of $5 million to $24 million for these same years.

This is due in large part to Government choosing to bring in less revenue from other sources than budgeted, specifically from dividend income and guarantee fees from Newfoundland and Labrador Hydro, sinking fund earnings and recoveries on loans, advances and investments. In addition, since 1997, Government has also used special warrants to make payments not approved in the initial budget which has the effect of increasing Government expenditures and increasing the deficit or decreasing the surplus. These revenue and expenditure "adjustments" are as follows:

3.3 Government's Results of Financial Operations

1. Dividends - Newfoundland and Labrador Hydro

Government's annual budget includes revenue from dividends of Newfoundland and Labrador Hydro Corporation. However, the actual amount received and reported as revenue in any year is determined at the discretion of Government and affects the cash surplus or deficit of the Consolidated Revenue Fund. As shown in Figure 3, the dividends budgeted each year and the amount the Government received and reported since 1997 are as follows:

Figure 3

Budget and Actual Dividends

Year	Budgeted	Received	Not Received
1997	$32 million	$17 million	$15 million
1998	$47 million	$17 million	$30 million
1999	$69 million	$17 million	$52 million
2000	$146 million	$70 million	$76 million
2001	$121 million	$53 million	$68 million

Source: Consolidated Revenue Fund Supplementary Statements and Schedules

As this indicates, Government has decided each year since 1997 to take significantly less dividend income from Newfoundland and Labrador Hydro than budgeted, thus providing Government with a significant amount of discretion as to what it reports as its cash surplus or deficit in the Consolidated Revenue Fund.

2. Sinking Funds

In December 1999, Government amended the *Financial Administration Act* to direct that where money in a sinking fund is not required to redeem an issue of securities, the money may be paid into the Consolidated Revenue Fund as the Lieutenant-Governor in Council may direct. As a result, the amount of money paid to the Consolidated Revenue Fund and recorded as revenue in any year is, depending on the availability of such monies, totally at the discretion of Cabinet.

3.3 Government's Results of Financial Operations

As shown in Figure 4, the amount of sinking fund earnings that were budgeted and actually transferred to the Consolidated Revenue Fund is as follows:

Figure 4

Budget and Actual Sinking Funds

Year	Budgeted	Received	Not Received
2000	$36 million	$10 million	$26 million
2001	$116 million	$27 million	$89 million

Source: Consolidated Revenue Fund Supplementary Statements and Schedules

As this indicates, Government has decided in both 2000 and 2001 to take significantly less sinking fund monies into income than budgeted, thus providing Government with the flexibility to "adjust" the cash surplus or deficit of the Consolidated Revenue Fund and produce a result it desires.

3. Guarantee Fees

When Government provides a guarantee to an entity, it charges an annual fee equal to 1% of the guarantee. However, in the case of Newfoundland and Labrador Hydro, the amount actually received and reported as revenue is determined at the discretion of Government and again provides the flexibility to "adjust" the cash surplus or deficit of the Consolidated Revenue Fund and produce a result it desires. Figure 5 shows the guarantee fee budgeted for Newfoundland and Labrador Hydro each year since 1997 and the amount the Government actually received and reported:

3.3 Government's Results of Financial Operations

Figure 5

Budget and Actual Guarantee Fees

Year	Budgeted	Received	Not Received
1997	$18.7 million	$10.8 million	$7.9 million
1998	$18.9 million	$11.2 million	$7.7 million
1999	$10.8 million	$11.3 million	$(0.5) million
2000	$18.9 million	$10.9 million	$8.0 million
2001	$18.9 million	$10.8 million	$8.1 million

Source: Consolidated Revenue Fund Supplementary Statements and Schedules

4. Recoveries - Loans, Advances and Investments

This activity provides for the principal recovery from various loans, advances and investments. As shown in Figure 6, during the last two fiscal years ended 31 March 2000 and 31 March 2001, the amount of recoveries that were budgeted compared to the amount actually transferred to the Consolidated Revenue Fund differed significantly as follows:

Figure 6

Budget and Actual Recoveries of Loans, Advances and Investments

Year	Budgeted	Received	Not Received
2000	$13.6 million	$0.4 million	$13.2 million
2001	$13.2 million	$1.6 million	$11.6 million

Source: Consolidated Revenue Fund Supplementary Statements and Schedules

In both fiscal years 2000 and 2001, Government budgeted recoveries which included $10 million from Newfoundland and Labrador Housing Corporation and $2.8 million from Gull Island Power Co.; however, Government deferred the receipt of these monies from the two Corporations in both fiscal years. As this indicates, Government decided in both 2000 and 2001 to take less recoveries on loans, advances and investments into income than budgeted, thus providing Government with the flexibility to "adjust" the cash surplus or deficit of the Consolidated Revenue Fund and produce a result it desires.

5. Special Warrants

Special warrants are used to make payments not approved in the original budget, thereby increasing Government expenditures and decreasing Government surplus. I have expressed concerns since 1997 that many special warrants issued each year did not meet the requirements of the *Financial Administration Act* as, in my opinion, they were not urgently required. The use of special warrants provides Government with the flexibility to "adjust" its cash surplus or deficit and produce a result it desires. As shown in Figure 7, special warrants issued in contravention of the *Financial Administration Act* since 1997 are as follows:

Figure 7

Special Warrants in Contravention of the Financial Administration Act

Year	Amount
1997	$36.9 million
1998	$30.9 million
1999	$95.0 million
2000	$70.8 million
2001	$33.0 million

A portion of these special warrants placed cash in certain Crown agencies which can, at any later date, be used to fund expenditures without approval of the Legislature.

In order to assess the impact that those adjustments would have on the cash surplus or deficit of the Consolidated Revenue Fund, we have summarized, in Figure 8, the cash surplus both before and after the adjustments for dividends and guarantee fees from Newfoundland and Labrador Hydro, sinking fund monies, recoveries on loans, advances and investments, and special warrants. Figure 8 also shows the cash surplus which was reported after the above adjustments and compares it to the cash budget of the Consolidated Revenue Fund.

Figure 8

Consolidated Revenue Fund
Reported Deficits
Year Ended 31 March
($ Millions)

Year	Cash Surplus Before Adjustments	Hydro Dividends Not Received	Sinking Funds Not Received	Hydro Guarantee Fees Not Received	Recoveries of Loans, Advances and Investments Not Received	Special Warrants Contrary to the FAA	Cash Surplus (Deficit) Reported	Budget Cash Deficit
1997	38.6	15.0	-	7.9	-	36.9	(21.2)	(44.8)
1998	57.6	30.0	-	7.7	-	30.9	(11.0)	(20.3)
1999	156.6	52.0	-	(0.5)	-	95.0	10.1	(10.0)
2000	181.0	76.0	26.0	8.0	13.2	70.8	(13.0)	(33.3)
2001	179.7	68.0	89.0	8.1	11.6	33.0	(30.0)	(34.7)

Source: Auditor General's Office

As Figure 8 shows, the deferral of dividends and guarantee fees from Hydro, sinking fund monies and recoveries on loans, advances and investments, in addition to the use of special warrants have had a significant impact on the cash deficit reported for the Consolidated Revenue Fund over the last five years.

3.3 Government's Results of Financial Operations

For the 2000-2001 fiscal year, if Government had received Hydro dividends, Hydro guarantee fees, sinking fund monies, and recoveries on loans, advances and investments it had budgeted, and had not issued special warrants in contravention of the *Financial Administration Act*, it would have reported a cash surplus of $179.7 million in the Consolidated Revenue Fund rather than a cash deficit of $30 million.

Government's Budget

The budget or financial planning information published by Government focuses on an incomplete picture. This planning information is not complete because the budget is prepared on a cash basis of accounting and therefore, does not include many significant accounting adjustments or transactions required to provide the actual results of Government operations. Specifically excluded are a number of significant transactions including foreign exchange losses, bad debts, and increases in Government's unfunded pension liability.

In addition, the financial planning information published by Government focuses on its finances as set out in one government fund called the Consolidated Revenue Fund. That picture is not complete because other Government activity takes place outside of that Fund. This activity takes place in organizations including the Health Care Sector, the Education Sector, Newfoundland and Labrador Hydro and other organizations which are owned or controlled by, and are accountable to, Government.

Neither the budgeted cash deficit of $34.7 million nor the reported cash deficit of $30.0 million includes all of the financial transactions and activities of Government. When all of these financial transactions and activities are included, Government's actual deficit for the year ended 31 March 2001 is $349.7 million.

Figure 9 compares the $30.0 million cash deficit of the Consolidated Revenue Fund to Government's total consolidated deficit of $349.7 million.

3.3 Government's Results of Financial Operations

Figure 9

Actual Cash and Accrual Deficit for Government Departments and Government's Actual Consolidated Deficit
31 March 2001
($ Million)

	Amount
Cash Deficit of Government Departments (Public Accounts - Volume III)	$ (30.0)
Increase the deficit for:	
Pension costs	(155.7)
Accounts payable	(32.5)
Bad debt expense	(27.7)
Foreign exchange losses	(18.2)
Capital debt expense	(17.9)
Decrease the deficit for:	
Increase in accounts and taxes receivable	84.9
Sinking fund earnings	59.2
Guarantees honoured	1.5
Other adjustments	1.7
Accrual Deficit for Government Departments (Public Accounts - Volume II)	(134.7)
Increase deficit for net losses of Government Agencies:	
Health Care Boards	(99.3)
Labrador Transportation Initiative Fund	(64.7)
Newfoundland and Labrador Education Investment Corporation	(16.1)
School Boards	(12.1)
Newfoundland and Labrador Housing Corporation	(2.1)
Decrease deficit for net income of Government Agencies:	
Newfoundland Liquor Corporation	96.1
Newfoundland and Labrador Hydro	34.9
Other entities	0.3
Adjustments to deficit of Government Departments:	
Bad debt expense recorded in Government departments relating to Agencies	13.9
Income of Government Agencies transferred to the Consolidated Revenue Fund	(165.9)
Government's Actual Consolidated Deficit (Public Accounts - Volume I)	$(349.7)

Source: Consolidated Revenue Fund financial statements, Consolidated Summary Financial Statements and Government Accounting Records

Recommendation

For Government's financial planning to be focused on a complete picture of its finances, the House of Assembly should be presented with a budget prepared on the accrual basis of accounting (i.e. including all adjustments required by generally accepted accounting practices) and the budget should include all of Government's entities. This budget would then serve as a means of holding Government accountable for its activities in any given year.

Treasury Board Secretariat's Response

The present policies for Budget preparation (cash basis) have existed by convention, and pursuant to the Financial Administration Act, *since Confederation. As with any business entity, a cash focus is essential to ensure adequate cash management and to maintain adequate control over debt. There are significant issues related to providing budget information on an accrual basis. Information on cash requirements would still be necessary. Current practice in other jurisdictions is not consistent in terms of what accrual budget information they provide. Government will consider whether to include accrual based information in its Budget.*

In our opinion, the Special Warrants referred to are not in contravention of the Financial Administration Act, *as there is clear authority for them in the* Act. *Our detailed comments on Special Warrants have been provided in response to that specific report item.*

The fiscal environment in which Government operates, both within the Province and in the international bond markets, is by its nature dynamic and subject to change by factors often not within Government's control. Consequently, it is sound fiscal management to have some limited degree of flexibility to manage Government's finances. Similar to parent companies in the private sector, Government naturally would exercise its discretion as the owner of Newfoundland and Labrador Hydro with respect to dividends; and with respect to managing its Sinking Funds and so forth.

Government has publicly announced on an annual basis its intentions regarding certain revenues. For example in the Budget 2001 Government stated "The strategy we have utilized for several years in managing public finances is to shift revenues from years where we would have unnecessarily high surpluses to years where we would otherwise have excessively high deficits".

3.3 Government's Results of Financial Operations

In reality, the combination of all transactions between the departments, the Crown agencies and the public for the year are consolidated in the audited Consolidated Summary Financial Statements and are tabled in the House of Assembly.

3.4 Creation of Crown Corporations and Borrowing without Legislative Authority

Introduction

Crown agencies are distinct legal entities in which government holds ownership and control on behalf of the Province. As a result government generally appoints the members of the board of directors, provides direction in the area of policy and, where necessary, provides operating funds to permit the agency to carry out its mandate. Ownership and support of Crown agencies represent a significant expenditure of public money and use of other resources on behalf of the Province. This public money is provided to government through the approval of the Province's annual budget by the Legislature.

Crown agencies are generally created by the Legislature under some form of legislation to be an instrument for carrying out public policy on behalf of the Crown. This legislation generally provides authority and direction relating to the mandate, purpose, and responsibility of each entity.

Scope and Objectives

We reviewed the status of the various Crown agencies to determine under what authority they were created.

We reviewed the *Financial Administration Act* and other legislation to determine under what authority these Crown agencies borrow money.

We also reviewed the financial statements and other supporting information of the Crown agencies which were created under the *Corporations Act* to determine whether they had any debt due outside of the government reporting entity at the most recent financial statement date.

Conclusions

Creation of Crown Agencies

Of the 85 Crown agencies which existed at 31 March 2001, 16 were created under the *Corporations Act* rather than by legislation enacted by the Legislature. If there is to be appropriate legislative control over the creation and operation of Crown agencies and if they are to be held accountable to the House of Assembly, then all Crown agencies should be created under the authority of the Legislature. An act of the Legislature would outline the mandate of a Crown agency and also state its purpose, authority and responsibility. In this way all members of the House of Assembly would be aware of newly created Crown agencies.

3.4 Creation of Crown Corporations and Borrowing without Legislative Authority

Borrowing without Legislative Authority

The most recent financial statements of the 16 Crown agencies created under the *Corporations Act* disclosed that four of these entities had a total of $7.1 million in outstanding debt due to entities outside of the government reporting entity. If the enabling legislation of an agency does not provide specific authority for it to borrow funds or if it has been created under the *Corporations Act*, then the Crown agency does not have the legislative authority to borrow. The *Financial Administration Act* prohibits the raising of money by way of loan without legislative authority. As a result, these entities contravened the *Financial Administration Act* by borrowing money without legislative authority.

Findings and Recommendations

Creation of Crown Agencies

Crown agencies are generally created by the Legislature under some form of legislation to be an instrument for carrying out public policy on behalf of the Crown. In many cases these entities are created under their own legislation as in the case of Newfoundland and Labrador Hydro-Electric Corporation (Newfoundland and Labrador Hydro), Workplace Health, Safety and Compensation Commission, Newfoundland Liquor Corporation, and Newfoundland and Labrador Housing Corporation. In other cases they are created under general legislation such as the *Hospitals Act* under which all hospitals in the Province are created. The legislation generally provides authority and direction relating to the mandate, purpose and responsibility of each entity.

The Legislature approves approximately $4 billion to fund the various programs proposed by government through its annual budget. Much of this funding is then distributed to the various Crown agencies to carry out their programs. Therefore, it is important that government and its entities report back to the House of Assembly on the use of any public money or other public resources which they have received. Because these entities are authorized to spend public money or use other public resources, it is important that they be created specifically by an act of the Legislature or under a blanket act such as the *Hospitals Act* or the *Schools Act*. In this way the Legislature can authorize the creation of Crown agencies, approve the specific governing provisions of their legislation and hold them accountable for their use of public money and other public resources.

We reviewed the status of the various Crown agencies to determine under what authority these entities were created. The authorities supporting the creation of the 85 Crown agencies which existed as at 31 March 2001 are presented in Figure 1.

3.4 Creation of Crown Corporations and Borrowing without Legislative Authority

Figure 1

Authority for Creation of Crown Agencies
31 March 2001

How the Crown Agency was Created	Number of Entities
Own separate legislation	36
Hospitals Act	12
Schools Act	11
Subsidiaries of Newfoundland and Labrador Hydro -Created under the *Corporations Act*	4
Health and Community Services Act	4
Financial Administration Act	1
Crown Agencies Created under Legislation	**68**
Corporations Act	16
Not created under legislation	1
Total Crown Agencies	**85**

Source: Legislation and Entities' Financial Statements

Figure 1 shows that 16 Crown agencies have been created under the *Corporations Act* and one agency was not created under any legislation. These Crown agencies were created under the *Corporations Act* or under no legislation rather than by legislation enacted by the Legislature. If there is to be appropriate legislative control over the creation and operation of Crown agencies and if they are to be held accountable to the House of Assembly, then all Crown agencies should be created under the authority of the Legislature. An act of the Legislature would outline the mandate of a Crown agency and also state its purpose, authority and responsibility. In this way all members of the House of Assembly would be aware of newly created Crown agencies.

3.4 Creation of Crown Corporations and Borrowing without Legislative Authority

Borrowing without Legislative Authority

In general, most Crown agencies are created under some form of legislation which establishes the mandate of a Crown agency and also states its purpose, authority and responsibility. Where a Crown agency has been created by legislation, the legislation usually provides direction as to procedures which the Crown agency must follow if it intends to borrow funds. If the enabling legislation does not provide specific authority for the Crown agency to borrow funds or if it has been created under the *Corporations Act*, then the Crown agency does not have the legislative authority to borrow. *Section 37* of the *Financial Administration Act* states that; *"No money shall be raised by way of loan by the province except under this or some other Act of the Legislature."* and *Section 52* of the *Act* states that *".... nothing in this Act authorizes an increase in the public debt without the express authority of the Legislature"*. In other words, government departments and Crown agencies cannot borrow money without the express authority of the Legislature.

Our review of the legislation under which the Crown agencies were created disclosed the following:

- of the 36 agencies created under their own separate legislation, 14 were granted authority to borrow and 22 agencies were not granted legislative authority to borrow. Of the 14 agencies which were granted legislative authority to borrow, 8 must receive prior approval of the Lieutenant-Governor in Council, 4 must receive prior approval of the minister and in 2 cases (one of which is no longer active) the agency may borrow on its own;

- in the case of the 16 agencies created under the *Corporations Act*, there is no provision or authority in legislation for them to borrow funds;

- for the 12 agencies created under the *Hospitals Act*, the *Act* provides that they may borrow subject to the approval of the minister;

- for the 11 agencies created under the *Schools Act*, the *Act* provides that they may borrow subject to the prior written approval of the minister;

- the 4 subsidiaries of Newfoundland and Labrador Hydro, which were created under the *Corporations Act*, are covered by the *Hydro Corporation Act* which permits Newfoundland and Labrador Hydro to borrow subject to the prior approval of the Lieutenant-Governor in Council;

- the 4 agencies created under the *Health and Community Services Act* have no legislative authority to borrow;

- the Newfoundland Government Sinking Fund, created under the *Financial Administration Act* has not been granted legislative authority to borrow; and

- the Newfoundland and Labrador Centre for Health Information has not been created under any legislation and therefore has no legislative authority to borrow.

As indicated above, the 16 agencies which were created under the *Corporations Act* do not have the legislative authority to borrow. However, our review of the most recent financial statements and other supporting information relating to the 16 Crown agencies disclosed that 4 of these entities had borrowed a total of $7.1 million. Figure 2 provides a listing of Crown agencies created under the *Corporations Act* along with details relating to the $7.1 million in outstanding debt.

3.4 Creation of Crown Corporations and Borrowing without Legislative Authority

Figure 2

Crown Agencies Created under the *Corporations Act*

Crown Agency	Year Created	Most Recent Year End	Total Borrowing Outside Government $
1. Bull Arm Site Corporation	1995	31 March 2001	0
2. Hotel Buildings Limited	1966	31 March 2001	0
3. Marble Mountain Development Corporation	1988	30 April 2001	1,284,564
4. Marble Mountain Management Corporation	1996	30 April 2001	0
5. Municipal Assessment Agency Inc.	1997	31 March 2001	0
6. Newco IV Corporation	1987	31 December 2000	0
7. Newfoundland and Labrador Education Investment Corporation	1998	31 March 2001	1,313,479
8. Newfoundland and Labrador Film Development Corporation	1997	31 March 2001	0
9. Newfoundland and Labrador Heritage Corporation	1999	31 March 2001	3,886,337
10. Newfoundland and Labrador Student Investment and Opportunity Corporation	2001	31 March 2001	0
11. Newfoundland Government Fund Limited	1995	31 December 2000	0
12. Newfoundland Hardwoods Limited	1950	31 March 2001	0
13. Newfoundland Ocean Enterprises Limited	1988	31 March 2001	600,000
14. Operation ONLINE Inc.	1996	31 March 2001	0
15. Special Celebrations Corporation of Newfoundland and Labrador, Inc.	1998	31 March 2001	0
16. The John Cabot (1997) 500th Anniversary Corporation	1992	31 March 2001	0
Total			**7,084,380**

Source: Entities' Financial Statements

3.4 Creation of Crown Corporations and Borrowing without Legislative Authority

Recommendations

All Crown agencies should be created under the authority of the Legislature through separate specific legislation. This legislation should authorize the creation of these entities, and approve their mandate, purpose, authority and responsibility

Crown agencies should not borrow without the express legislative authority of the Legislature.

Treasury Board Secretariat's Response

By convention, it has been a long standing practice of our Governments to occasionally incorporate an entity under the Corporations Act *(ie. 1950, 1966, 1987 as noted). Factors such as: whether or not the House is sitting; the timing of the decision; and the urgency for the entity to be created or program implemented, may have been considerations in such decisions. We note that there is nothing to prohibit Government from incorporating an entity under the* Corporations Act.

Regarding borrowing authority, you have commented that entities created under the Corporations Act may not have specific legislative authority to borrow. However, in recent years the Articles of Incorporation/Bylaws for these corporations have specific provision for borrowing, but only with the approval of the Lieutenant-Governor in Council. In addition, the financial institutions generally require a guarantee of the Province prior to lending. In fact, four of the entities you have identified all have guarantees in place by the Province pursuant to the Loan and Guarantee Act. *A Schedule is prepared pursuant to that* Act *and tabled in the House, clearly indicating the limits of guarantees provided by the Province. Entities created under the Corporations Act are created in their own right and their borrowings do not obligate the Crown unless provincial guarantees are provided under legislation.*

In view of your concerns, Treasury Board will consider whether legislative amendments are necessary regarding creation of Crown entities through the Corporations Act *and related borrowing authority.*

3.5 Non-Compliance with the Financial Administration Act

Introduction

The *Financial Administration Act* is the primary act governing the financial operations of the Province. The *Act* outlines the legislative requirements for the collection and disbursement of public funds, the raising of certain loans authorized by the Legislature and the auditing of the financial statements of the Province. Concepts provided for in the *Financial Administration Act* and central to our democratic system are that Government can not spend beyond the limits approved by the Legislature, money can only be spent for purposes authorized by the Legislature and Government can not raise money without the approval of the Legislature.

Conclusion

Each year our audit identifies instances whereby departments or Crown agencies did not comply with the *Financial Administration Act*. This *Act* is one of the most significant pieces of legislation since it provides for the collection and disbursement of all public money and the raising of all public debt. During the past two years I have noticed an increase in the number of significant instances of non-compliance with the *Financial Administration Act*. In prior years, instances of non-compliance were more isolated and could be attributed to errors. The instances of non-compliance identified during my audit work this year are more prevalent.

During the reviews conducted by our Office for the year ended 31 March 2001, we determined that a number of government departments are not complying with the *Financial Administration Act*. Specifically:

- a number of departments entered into commitments for goods and services in excess of the amount of funding provided for by the Legislature;
- a number of departments made payments from accounts for purposes other than those authorized by the Legislature; and
- a number of Crown agencies borrowed money without the authority of the Legislature.

Findings

Spending in excess of the amounts approved by the Legislature

Section 26(2) of the *Financial Administration Act* prohibits a deputy minister from entering into a commitment to pay for goods or services unless there are sufficient funds available to meet the commitment. Our review for the year ended 31 March 2001 indicated that two departments did not comply with this Section of the *Act* as commitments for goods or services were entered into in excess of the budget provided for by the Legislature. Figure 1 provides information on these instances of non-compliance with the *Act*.

3.5 Non-Compliance with the Financial Administration Act

Figure 1

Commitments In Excess of Approved Budget
31 March 2001
($000's)

Department	Approved Budget	Expenditure Volume III	Unexpended Balance	Amounts Owing	Excess Commitment
Justice	$125,089	$125,055	$34	$571	$(537)
Public Service Commission	2,293	2,291	2	15	(13)
Total	$127,382	$127,346	$36	$586	$(550)

Source: Volume III Public Accounts and Departmental Liability Submissions

In summary, for the year ended 31 March 2001, the combined approved funding for the Department of Justice and the Public Service Commission was $127.382 million. Total gross expenditure reported by these departments was $127.346 million which resulted in an unexpended balance, or funds available for commitments, of $36,000.

However, these departments reported an amount owing, at 31 March 2001, of $586,000, which was $550,000 in excess of what was provided by the Legislature. As a result, these two departments contravened the *Financial Administration Act* by entering into commitments which exceeded amounts provided for by the Legislature.

Spending for purposes other than those authorized by the Legislature

Section 22 of the *Financial Administration Act* prohibits the issue of public money out of the Consolidated Revenue Fund for purposes other than those authorized by the Legislature.

3.5 Non-Compliance with the Financial Administration Act

During our reviews for the year ended 31 March 2001, we determined that a number of departments had charged expenditures to accounts for specified goods and services other than those authorized by the Legislature. As a result, the departments contravened the *Financial Administration Act* as outlined below:

1. Department of Forest Resources and Agrifoods

During the year, we reviewed the expenditures of the Agriculture Safety Net Program which is administered by the Department of Forest Resources and Agrifoods.

Two vehicles costing $19,200 each were charged to the Agriculture Safety Net Program in January 2000; however, documentation indicated that the two vehicles were purchased for other Divisions of the Department and did not relate to the Agriculture Safety Net Program. Similarly, in January and March of 2001, two additional vehicles, costing $30,650 and $24,247 respectively, were purchased for another Division of the Department which did not have the approved funding to do so, and again charged to the Agriculture Safety Net Program. As a result, the Department contravened the *Financial Administration Act* by purchasing vehicles for other programs and charging them to the Agriculture Safety Net Program.

During the year, we also reviewed expenditures for fire suppression and communications under the Department of Forest Resources and Agrifoods. Next to salaries, the largest expenditure related to fire suppression and communications was supplies which totaled $895,000 for the year ended 31 March 2001. A review of a sample of 28 purchases totaling $285,000 of the $895,000 indicated the following:

- Items such as ATV's, boats, motors, and trailers, totaling approximately $48,000 were purchased during the latter part of March. All of these purchases were charged to the supplies account instead of property, furnishings and equipment. As a result, the Department contravened the *Financial Administration Act* by purchasing equipment from funds authorized by the Legislature for supplies.

- 3 of the 28 invoices were for purchases of $40,832 for wildlife compliance; however, these were charged to fire suppression. One invoice was for 2 ATV's delivered to Clarenville, another was for 2 ATV's delivered to Grand Falls-Windsor and the third was for pants and jackets for Gander. In this instance, the Department again contravened the *Financial Administration Act* by purchasing equipment for wildlife compliance from funds authorized by the Legislature for fire suppression.

2. Department of Municipal and Provincial Affairs

During the year, we reviewed several aspects of the operations of the C.A. Pippy Park Commission (the Commission). The Commission was incorporated in 1968 for the purpose of providing a park-like setting to house the headquarters of the Provincial Government, as well as various government, cultural, and educational facilities including Memorial University of Newfoundland. The Commission currently owns the two golf courses located within Pippy Park. In November 1997, an agreement covering the management and operation of the two golf courses was entered into between the Commission, Thomas Development (1989) Corporation and the Minister of Works, Services and Transportation on behalf of the Province.

Our review indicated that a special assistance grant of $45,000 was paid by Government, through the Commission, to Thomas Development (1989) Corporation during the year ended 31 March 2001 to assist with ongoing cash flow problems and was not required to be reimbursed. The $45,000 was charged to the "Municipal Financial Assistance - Special Assistance" program in the Department of Municipal and Provincial Affairs which was supposed to be used for the *"... payment of special assistance grants to municipalities"*. The Commission is not a municipality. As a result, funds provided in this account were not used for the purposes authorized by the Legislature and therefore, the Department of Municipal and Provincial Affairs contravened the *Financial Administration Act*.

3. Executive Council

During the year, we reviewed expenditures charged to the Protocol Office of Executive Council. The Protocol Office is responsible for the co-ordination of major Government sponsored events, and the arrangement of itineraries for visiting dignitaries.

3.5 Non-Compliance with the Financial Administration Act

Our review indicated that expenditures of $676,431 were charged to Protocol accounts for the year ended 31 March 2001. Of this amount, $150,867 was subsequently transferred to other expenditure accounts. The $150,867 charged to Protocol was not Protocol expenditure and as a result, expenditures were made from this account for purposes other than those approved by the Legislature and in contravention of the *Financial Administration Act*.

Borrowing without the authority of the Legislature

The *Financial Administration Act* states that no money shall be raised by way of loan by the Province except under the authority of the Legislature. Our review identified a number of Crown corporations which borrowed money in 1999-00 and 2000-01 without the approval of the Legislature. These include the Newfoundland and Labrador Education Investment Corporation, the Newfoundland and Labrador Heritage Corporation and Marble Mountain Development Corporation. As a result, these corporations contravened the *Financial Administration Act* by borrowing money without the approval of the Legislature.

Treasury Board Secretariat's Response

Treasury Board has written the departments to remind them of their responsibilities relating to compliance with the Financial Administration Act. *The departments have a responsibility to ensure commitments are not entered into unless an appropriation exists and to ensure that expenditures are recorded in the correct accounts. Policy and direction is provided through various manuals, Accounting Circulars, correspondence, etc..*

An Internal Audit Review has commenced to identify any opportunities for improvement in these areas and make recommendations as considered appropriate or necessary and the Comptroller's Office has taken steps to strengthen compliance monitoring.

Regarding your comments on borrowing authority, I note that the House of Assembly, through assenting to amendments to The Loan and Guarantee Act, *have been made aware of these borrowings and have approved loan guarantees for these entities. In addition, for the corporations you have identified, the Articles of Incorporation/Bylaws have specific provision for borrowing, but only with the approval of the Lieutenant-Governor in Council.*

3.6 Special Warrants

Introduction

The common parliamentary means of providing spending authority to government is through the annual passing of supply acts. This involves having the Members of the House of Assembly vote on the government's funding requests before the spending authority is provided. Approval by a majority of the Members of the House of Assembly is needed to pass an Act.

Through the use of a "special warrant", Government can, without the prior approval of the Members of the House of Assembly, spend public money. The *Financial Administration Act* outlines the circumstances which must exist in order for a special warrant to be approved and additional funding provided to Government.

Figure 1 provides information on special warrants issued over the past nine years.

Figure 1

Special Warrants Issued
Years Ended 31 March
(Millions)

Year	Total number of Special Warrants	Total Amount of Special Warrants	Special Warrants Issued in March of each Year
1993	7	$42.4	$2.5
1994	2	36.5	0.0
1995	13	57.9	30.4
1996	10	32.5	4.1
1997	7	75.7	75.7
1998	13	88.6	34.6
1999	14	136.0	123.8
2000	7	70.8	70.8
2001	6	61.5	33.0
Totals	**79**	**$601.9**	**$374.9**

Source: Public Accounts of the Province

3.6 Special Warrants

As indicated in Figure 1, Government's use of special warrants increased significantly from 1997 onward. I have previously expressed concern that many of these special warrants do not meet the requirements of the *Financial Administration Act*. I have also indicated that Government's use of special warrants, especially during the last month of each fiscal year are used to reduce the cash surplus of Central Government and produce whatever financial results the Government desires.

Findings

Special Warrants 2000-01

There were 6 special warrants totalling $61.5 million issued in the 2000-01 year, of which, four amounting to $33.0 million were issued in March 2001. Figure 2 provides information on each of these special warrants.

Figure 2

Special Warrants by Department
Year Ended 31 March 2001
(Millions)

Date of Special Warrant	Department	Details		Amount
23 February 2001	Works, Services and Transportation	Purchased Services - Building Utilities and Maintenance	$1.5	
		Supplies - Maintenance of Equipment	1.5	
		Supplies - Ferry Operations	1.0	
		Supplies - Coastal Labrador Ferry Operations	.8	
		Total	$4.8	$4.8
23 February 2001	Health and Community Services	Grants and Subsidies - Health Care Facilities Operations	$20.4	
		Grants and Subsidies - Community Services	3.3	
		Total	$23.7	23.7
		Total Special Warrants issued February 2001		28.5
28 March 2001	Health and Community Services	Drug Subsidization Income Support	$2.3	
		Drug Subsidization Senior Citizens	1.4	
		Total	$3.7	3.7
28 March 2001	Health and Community Services	Property, Furnishings and Equipment (Capital) - Health Care Facilities	$10.0	
		Grants and Subsidies (Capital) - Health Care Facilities	5.0	
		Total	$15.0	15.0
28 March 2001	Health and Community Services	Property, Furnishings and Equipment (Capital) - Health Care Facilities	$8.8	8.8
30 March 2001	Health and Community Services	Grants and Subsidies - Health Facilities Operations	$5.5	5.5
		Total Special Warrants issued March 2001		33.0
		Total Special Warrants issued for the 2000-01 year		$61.5

3.6 Special Warrants

Our review of the four special warrants totalling $33 million which were issued on 28 and 30 March 2001 indicated that they were issued in contravention of the *Financial Administration Act* in that they were not urgently required. Since the funds were not urgently required and the House of Assembly was in session, the request for the additional funding should have been included in either a Supplementary Supply Act for 2000-01 and presented to the House of Assembly for approval in that year or included in the 2001-02 budget.

Special Warrants Department of Health and Community Services 1993 to 2001

As Figure 3 indicates, of the special warrants totalling $268.3 million which were issued from 1999 to 2001, $172.5 million or 64% were for the Department of Health and Community Services. For the preceding six fiscal years 1993 to 1998, only $7.3 million in special warrants was issued for the Department of Health and Community Services. The large amount of funding provided by way of special warrant rather than through the normal budget process is indicative of the significant issues regarding the amount of funding required by the Health Care Boards to provide health services.

Of the $172.5 million in special warrants issued from 1999 to 2001 for the Department of Health and Community Services, $131.4 million was provided during the last month of the fiscal year. Government generally waits until March of each year, determines its cash surplus at that point in time and provides additional funding to the extent necessary to provide a predetermined financial result in the Consolidated Revenue Fund.

3.6 Special Warrants

Figure 3

Amount of Special Warrants Issued for the Department of Health and Community Services
Years Ended 31 March
(Millions)

Year	Total Special Warrants Issued	Special Warrants Issued for the Department of Health and Community Services
1993	$42.4	$0.0
1994	36.5	0.0
1995	57.9	0.0
1996	32.5	0.8
1997	75.7	3.5
1998	88.6	3.0
Total 1993 to 1998	**333.6**	**7.3**
1999	136.0	72.1
2000	70.8	43.7
2001	61.5	56.7
Total 1999 to 2001	**268.3**	**172.5**
Total 1993 to 2001	**$601.9**	**$179.8**

Treasury Board Secretariat's Response

I offer the following comments for your consideration.

- *It should be noted that utilizing Special Warrants for continuing services when the Legislature is in session and for new services when the House is not in session has been a long standing practice and is permitted under the Financial Administration Act (FAA). Any funding obtained via Special Warrants is also subsequently included in a Supply Bill. The provision of funding by Special Warrants is common in the other provinces.*

- *The need for Special Warrants will inevitably arise from time to time, and Special Warrants have, in fact, been issued in most years. Our financial condition is subject to a high degree of dependence on federal transfer payments which are by their nature highly volatile. Over the years, given higher revenues than expected, towards year end Government has utilized the Special Warrants mechanism to make some expenditures that they felt served the public good. This was in an effort to avail of year-end flexibility and provide for a stable financial performance.*

- *The suggestion that funding could have been included in the 2001-2002 Budget overlooks that Government had flexibility to incur these expenditures in the 2000-2001 year but that this flexibility may not have existed for 2001-2002.*

- *The FAA does not define or qualify what should constitute urgency. In all cases appropriate statements as to urgency had been prepared by Ministers, and were tabled in the House of Assembly, as required by the* Act. *Presumably, in this case, the appropriate Ministers felt there was an urgency, and the House of Assembly obviously concurred. Accordingly, I believe that the Special Warrants meet the requirements of the* Financial Administration Act.

- *Regarding your comments relating to the issuance of Special Warrants as a mechanism providing Government with flexibility to adjust the cash surplus, it should be noted that the payments relating to the appropriations authorized by the Special Warrants were properly accounted for in the Consolidated Revenue Fund financial statements.*

Department of Health and Community Services Response

With respect to special warrants issued to the Department in fiscal 2000-01 I would like to make the following comments.

- ***Detox Treatment for Innu Children*** *- The special warrant of $5.5 million reimbursed boards for the cost of care provided to these children. The 2000 budget did not foresee this need and it was only late in the fiscal year when the amount of additional funding required by boards became known. It should also be noted the federal government reimbursed the province for virtually all costs associated with this initiative.*

- ***Drug Program*** - *While the Department estimates the cost of funding these programs in the budget each fiscal year, the utilization of the program is dependent on the number of eligible individuals under the programs, the prescribing patterns of physicians, and the general health of the population. Given these variables it is usually only late in the fiscal year when the Department can determine if any additional funding is required. Although a special warrant of $3.7 million was approved, it should be noted the Department had to subsequently transfer an additional $881,600 into the program to fund unanticipated utilization growth.*

- ***Reclassification of Health Professionals*** - *In 2000 the Government announced a classification review of nurses, licensed practical nurses and social workers. The time needed to conduct the review, assess the findings, and calculate the cost of implementation meant the determination of the amount of funding required ($23.7 million) was not known until late in the fiscal year*

- ***Capital Medical Equipment and Renovations*** - *Due to federal funding made available through the Health Accord ($8.8 million) and improved fiscal flexibility the Government approved special warrants to enable Regional Health Boards to commence much needed renovations and acquire medical equipment.*

Special Warrants Department of Health and Community Services 1993-2001

Special Warrants during this period have been issued primarily to support the operations of Regional Health Care Boards. In prior years reports from your office have expressed concern about the financial performance and fiscal stability of Regional Health Boards. The Department shares this concern. While the province has increased board budgets significantly over the last number of years, they collectively continue to struggle to meet the service delivery needs driven by an aging population, advances in medical technology etc., within the funding provided by government. If government has some fiscal flexibility toward year-end due to higher than expected revenues then addressing the acknowledged pressures in health care is a prudent use of this funding.

3.7 Accounts and Loans Receivable in Government

Introduction

In my previous reports to the house of Assembly, I have indicated that Government needs to significantly improve on its collections of amounts owed to it. Government's financial information indicates that Government does not do a good job in collecting amounts owed to it. As a result, a significant portion of these amounts have been written off or are considered doubtful of collection. Figure 1 provides information on amounts owed to Government departments for each of the ten years to 31 March 2001 along with the amount that Government considers to be uncollectible and amounts written off. These amounts owed include accounts and taxes receivable, as well as loans, advances and mortgages receivable.

Figure 1

Consolidated Revenue Fund
Accounts, Taxes, Loans, Advances and Mortgages Receivable
Years Ended 31 March
($Millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Total
Total Receivables	534	531	544	552	537	475	462	469	450	515	
Less: Amounts Considered to be Uncollectible	239	242	256	279	280	215	212	242	248	273	
Net Receivables	295	289	288	273	257	260	250	227	202	242	
Accounts Written Off	**1**	**80**	**14**	**5**	**21**	**70**	**8**	**2**	**13**	**2**	**216**

Source: Consolidated Revenue Fund Financial Statements

As Figure 1 indicates, at 31 March 2001 Government was owed $515 million of which $273 million is considered to be uncollectible. In addition, since my appointment as Auditor General in 1992, Government has written off a total of $216 million.

Scope and Objective

We reviewed the amounts owed to Government as at 31 March 2001 to determine whether they are collected on a timely basis. We also reviewed the various accounts receivable systems to determine whether all departments were using the accounts receivable system introduced by Government in May of 1999.

3.7 Accounts and Loans Receivable in Government

Conclusion

Our review disclosed that Government has written off $216 million owed to it during the past 10 years. In addition, Government was owed $515 million as of 31 March 2001 of which $273 million was considered doubtful of collection. In my opinion, Government does not do a good job of collecting amounts owed to it.

Our review also disclosed that, as at 30 November 2001, all Government departments except Works, Services and Transportation had implemented Government's new accounts receivable system.

Findings and Recommendations

Figure 2 provides details on the $515 million owed to Government as at 31 March 2001.

Figure 2

Consolidated Revenue Fund
Amounts owed to Government
31 March 2001
($ Millions)

Type of Receivable	Balance	Amount outstanding in excess of one year	Amount considered doubtful of collection
Crown Agencies	(Note 1) 216	27	146
Taxes receivable	129	60	52
Commercial loans	32	27	29
Miscellaneous receivables	89	15	17
Court fines	20	16	13
Social Assistance overpayments	28	25	16
Other	1	1	0
Total	**515**	**171**	**273**

Note 1: Of the $216 million relating to Crown Agencies, $122 million relates to Enterprise Newfoundland and Labrador Corporation, the Fisheries Loan Board of Newfoundland and the Farm Development Loan Board.

3.7 Accounts and Loans Receivable in Government

During the last 10 years Government has written off $216 million in accounts receivable owed to it. Details of these amounts written off are presented in Figure 3.

Figure 3

Consolidated Revenue Fund
Accounts and Loans Receivable Written Off
1992 to 2001
($ Millions)

Entity	Amount
Baie Verte Mines Inc.	47.5
Newfoundland Industrial Development Corporation	29.2
Newco Corporations	16.2
Newfoundland Enviroponics Limited	15.2
Integrated Poultry Group of Companies	11.5
Enterprise Newfoundland and Labrador	10.9
Newfoundland Dockyard	8.1
Ocean Harvesters Limited	6.6
Cape Pine Fisheries Ltd.	6.5
Miscellaneous amounts which are less than $300,000 individually	5.7
Fisheries Loan Board of Newfoundland	4.4
Social Assistance Overpayments	4.2
Court fines	3.9
St. Lawrence Fluorspar Limited	3.9
Fisheries Loans	3.8
Notre Dame Bay Fisheries	3.8

Figure 3 (cont.)

Entity	Amount
Universal Group of Companies	3.5
Department of Health	3.3
Harbour Grace Fishing Company Limited	2.4
Oceana Seafood Processors Limited	2.2
St. Clares Mercy Hospital	2.0
Other government departments - accounts written off	1.8
Superior Seafoods Limited	1.6
St. John's Metropolitan Area Board	1.5
Governor's Park Limited	1.4
Great Northern Seafoods Limited	1.4
Petty Harbour Fishermen's Producer's Co-operative Society Limited	1.3
Blue Ocean Products Limited	1.3
Gander Masonic Memorial Complex	1.2
Salvation Army Grace General Hospital	1.0
Reid's Products Limited	0.9
Petty Harbour Fisheries Ltd.	0.9
Belle Isle Seafoods Ltd.	0.8
S. T. Jones and Son Limited	0.8
White's Fisheries Limited	0.8
Department of Natural Resources	0.7
Northeast Coast Sealers Co-op Society Limited	0.6
Island Tile and Slate	0.5
Nordco Limited	0.5
Department of Fisheries	0.5

Figure 3 (cont.)

Entity	Amount
Reg Petten	0.5
Sop's Arm Fisheries (1988) Limited	0.3
Ocean Kist Products (1970) Ltd.	0.3
Department of Works, Services and Transportation	0.3
Trouty Seafoods Limited	0.3
Total	216.0

In addition to the amounts written off totalling $216 million, during the years 1992 to 2001 the Province forgave taxes in the amount of $14 million and granted $23 million in tax remissions.

In May 1999 Government introduced the accounts receivable function of its accounting system. Government anticipates that this system will improve its recording, controlling and monitoring of accounts receivable. In our 1999 Report we noted that during the period May to October 1999, the accounts receivable function was implemented in 12 of the 15 departments. In our 2000 Report we noted that the accounts receivable system had not been implemented in: Executive Council; Health and Community Services; and Works, Services and Transportation.

Our work during the current year has disclosed that, as at 30 November 2001, the accounts receivable system had been implemented in all Government departments except Works, Services and Transportation.

Recommendations

Government should be more diligent in collecting amounts owed to it.

Government should review its criteria for granting loans and loan guarantees which often result in Government write-offs.

Figure 3 (cont.)

Entity	Amount
Reg Petten	0.5
Sop's Arm Fisheries (1988) Limited	0.3
Ocean Kist Products (1970) Ltd.	0.3
Department of Works, Services and Transportation	0.3
Trouty Seafoods Limited	0.3
Total	216.0

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Our work during the current year has disclosed that, as at 30 November 2001, the accounts receivable system had been implemented in all Government departments except Works, Services and Transportation.

Recommendations

Government should be more diligent in collecting amounts owed to it.

Government should review its criteria for granting loans and loan guarantees which often result in Government write-offs.

Treasury Board Secretariat's Response

I agree there should be improved diligence by departments in collecting their accounts and loans receivable. The departments are responsible for the timely collection and management of their accounts.

The Treasury Board Secretariat continues to be active in encouraging improvements in collections and related activities of the departments through analysis and feedback with respect to write-off requests, routine interaction with departments and provision of advice when requested. In addition, the Comptroller General's Office has already commenced a review of collection activities in the departments, as directed by the Treasury Board. The Financial Administration Act *has been amended during this 2001 fall session which should facilitate more efficient write off of appropriate accounts, but only within strict guidelines.*

The government-wide Oracle accounts receivable system has been made available to all departments. The last department, Works, Services and Transportation, is currently in the process of converting its various accounts receivable to the Oracle system. In addition, we have improved upon the collections functionality of the system and recently additional tools have been made available to departments for collection of accounts and managing collection activity.

3.8 A Review of Overtime

Introduction

For the year ended 31 March 2001, employees of Government departments were paid salaries of $288.3 million which included $13.5 million in overtime compensation. Overtime compensation is provided to employees who are required to perform duties outside normal working hours. Compensation for overtime is determined in accordance with various policies and collective agreement provisions. Figure 1 outlines overtime payments during the last five years and shows these payments as a percentage of salary costs for each year.

Figure 1

Salaries and Overtime
Years ended 31 March
($ millions)

Description	1997	1998	1999	2000	2001
Salaries, including overtime	$271.5	$264.5	$273.7	$270.8	$288.3
Overtime	$7.7	$9.2	$11.1	$12.7	$13.5
Overtime as a % of salaries	2.8%	3.5%	4.1%	4.7 %	4.7%

Source: Public Accounts and General Service Payroll

As this Figure indicates, overtime payments in Government have increased in total dollars and as a percentage of salaries.

Scope and Objectives

We completed our review in April 2001. The objectives of our review were to determine:

- the amount of overtime paid to employees of Government departments over the last five years from 31 March 1997 to 31 March 2001;
- the amount of overtime owed to employees of Government departments as of 31 March 1997 to 31 March 2001; and

- whether adequate controls are in place to ensure overtime is authorized and paid in accordance with collective agreement provisions and Government policy.

Conclusions

Over the last five years reviewed, overtime payments have increased significantly, from $7.7 million for the year ended 31 March 1997 to $13.5 million for the year ended 31 March 2001. This represents an increase of 75% over these five years. Three departments incurred 88% of the overtime paid during the year ended 31 March 2001. These three departments were the Department of Works, Services and Transportation (69%), the Department of Justice (12%), and the Department of Forest Resources and Agrifoods (7%).

For the last three fiscal years, Government significantly exceeded its budget for overtime by $4.4 million, $5.6 million and $5.5 million respectively. Three departments were responsible for 84% of the overtime payments in excess of budget during the year ended 31 March 2001. These three departments were the Department of Works, Services and Transportation (58%), the Department of Justice (13%), and the Department of Forest Resources and Agrifoods (13%).

Our review of the transfer of funds to and from salaries for the year ended 31 March 2000 indicated that many of these transfers did not comply with Government's Transfer of Funds Policy.

In addition to paying employees for overtime worked, Government also allows employees to accumulate or bank their overtime and use it as paid leave or receive monetary compensation at a later date such as upon termination. Accumulated and unpaid overtime owed to employees has increased from $2.4 million at 31 March 1997 to $4.2 million at 31 March 2001. Although Government knows that this amount is owed to employees as at 31 March 2001, because of the inadequacies in leave systems in most departments, it does not have details on the total overtime earned and banked during the year or the amount which has been used as paid leave. As a result of this lack of information, Government cannot adequately manage overtime costs.

Overtime payments to employees are not always accurate. Our review of 150 random overtime payments in 2000-2001 identified 10 payment errors ranging from an underpayment of $18 to an overpayment of $1,015.

Findings

Overtime Payments - Summary

Over the past five years, overtime payments have increased significantly, from $7.7 million for the year ended 31 March 1997 to $13.5 million for the year ended 31 March 2001. This represents a total increase of 75% over these five years. Figure 2 summarizes the overtime paid to employees of government departments over the past five years. As indicated in Figure 2, three departments incurred 88% of the overtime paid during the year ended 31 March 2001. These three departments were the Department of Works, Services and Transportation (69%), the Department of Justice (12%), and the Department of Forest Resources and Agrifoods (7%).

Figure 2

Overtime Payments
Years Ended 31 March
($000's)

Department	1997	1998	1999	2000	2001
Works, Services and Transportation	$ 5,053	$ 6,068	$ 7,214	$ 7,975	$ 9,328
Justice	649	832	944	1,430	1,625
Forest Resources and Agrifoods	707	669	1,202	1,682	1,015
Mines and Energy	176	243	208	253	241
Tourism, Culture and Recreation	287	276	242	222	229
Executive Council	114	116	244	194	196
Government Services and Lands	156	189	223	151	171
Environment and Labour	62	43	116	98	120
Municipal and Provincial Affairs	72	103	95	93	111
Human Resources and Employment	136	176	114	112	103
Education	91	116	133	84	75
Finance	89	130	126	109	74
Fisheries and Aquaculture	35	87	82	112	66
Health and Community Services	8	14	63	81	38
Industry, Trade and Technology	58	30	7	2	33
Development and Rural Renewal	11	24	74	57	28
Legislature	6	46	56	7	17
Public Service Commission	3	1	0	0	6
Total overtime	**$7,713**	**$9,163**	**$11,143**	**$12,662**	**$13,476**

Source: General Service Payroll Records

Comparison of Budget to Actual Overtime Expenditures

Given the significant increase in overtime paid over the past five years, we compared the original amount budgeted for overtime to the actual overtime paid. Budget information prior to 1999 was not readily available and therefore, we limited our analysis to the past three years. This analysis is presented in Figure 3. As this Figure indicates, three departments were responsible for 84% of the overtime payments in excess of budget during the year ended 31 March 2001. These three departments were the Department of Works, Services and Transportation (58%), the Department of Justice (13%), and the Department of Forest Resources and Agrifoods (13%).

Figure 3

Overtime Budgets and Payments
Years Ended 31 March
($ 000's)

Department	1999			2000			2001		
	Budget	Payments	Over (Under)	Budget	Payments	Over (Under)	Budget	Payments	Over (Under)
Works, Services and Transportation	$5,206	$7,214	$2,008	$5,352	$7,975	$2,623	$6,150	$9,328	$3,178
Justice	656	944	288	798	1,430	632	910	1,625	715
Forest Resources and Agrifoods	284	1,202	918	307	1,682	1,375	318	1,015	697
Mines and Energy	153	208	55	148	253	105	162	241	79
Tourism, Culture and Recreation	47	242	195	42	222	180	59	229	170
Executive Council	60	244	184	66	194	128	13	196	183
Government Services and Lands	105	223	118	97	151	54	141	171	30
Environment and Labour	28	116	88	27	98	71	27	120	93
Municipal and Provincial Affairs	44	95	51	58	93	35	63	111	48
Human Resources and Employment	9	114	105	6	112	106	6	103	97
Education	92	133	41	86	84	(2)	81	75	(6)
Finance	0	126	126	53	109	56	40	74	34
Fisheries and Aquaculture	25	82	57	21	112	91	22	66	44
Health and Community Services	0	63	63	3	81	78	7	38	31
Industry, Trade and Technology	15	7	(8)	15	2	(13)	18	33	15
Development and Rural Renewal	26	74	48	0	57	57	0	28	28
Legislature	5	56	51	4	7	3	5	17	12
Public Service Commission	0	0	0	0	0	0	0	6	6
Total	**$6,755**	**$11,143**	**$4,388**	**$7,083**	**$12,662**	**$5,579**	**$8,022**	**$13,476**	**$5,454**

Source: Oracle Financial Analyzer and General Service Payroll System

3.8 A Review of Overtime

As indicated in Figure 3, actual overtime paid significantly exceeded the amount of overtime budgeted for the years ended 31 March 1999, 31 March 2000 and 31 March 2001 by $4.4 million, $5.6 million and $5.5 million respectively. To determine where the funds came from to pay for the additional salaries and increased overtime, we analyzed the budget transfers for salaries for 1999-2000.

In summary, our review indicated that the salary budget for departments as presented in the 1999-2000 estimates was increased from $266.5 million to $274.0 million, a total increase of $7.5 million of which $5.6 million was required to pay overtime. Figure 4 summarizes the transfers of funding into salaries and out of salaries for 1999-2000.

Figure 4

Salary Budget Transfers
Year ended 31 March 2000

Budget Object	Net Transfers
Original salary budget	**$266,524,100**
Add transfers into salaries from:	
Purchased Services	4,046,430
Contingency Reserve Fund	2,719,200
Grants and Subsidies	1,054,200
Transportation and Communication	300,900
Property, Furnishings, and Equipment	202,180
Debt Expenses	141,400
Supplies	74,620
Professional Services	42,675
Less transfers out of salaries to:	
Information Technology	(735,200)
Employee Benefits	(16,300)
Allowances and Assistance	(287,000)
Net increase in salary budget	**7,543,105**
Revised salary budget	**$274,067,205**

Source: Financial Management System

3.8 A Review of Overtime

Our review of the $7.5 million increase in funding required for the additional salaries and increased overtime was paid by transferring funds from a number of program areas throughout Government, and in 11 instances, from the contingency reserve fund. Our review also indicated the following:

- The $7.5 million increase in funding for additional salaries and increased overtime was provided by 336 individual transfers. Many of these transfers did not comply with Government policy which does not permit a transfer of funding from one area to another unless there are **permanent savings** in the first area. In 1999-2000, Government transferred significant amounts of money into salaries but also transferred significant amounts of funding out of salaries. The transfer of funds into and out of salaries throughout the year contravenes Government's *Transfer of Funds Policy* and indicates inadequate budgetary control.

- Significant funds were transferred from a number of program areas to pay additional salaries and increased overtime. For example:

    - $1.2 million was transferred from capital funding which was intended for capital construction projects;

    - $825,000 was transferred from capital funding which was intended for construction of a part of the Trans Labrador Highway; and

    - $295,500 was transferred from funding which was intended for grants for agricultural programs.

Overtime Owed to Employees But Not Yet Paid

In addition to overtime which has been paid, Government also maintains a record of overtime earned by employees but not yet paid. Employees have the option of using this earned overtime as paid leave or receive payment for it. This unpaid overtime is also increasing and as indicated in Figure 5, totalled $4.2 million as at 31 March 2001.

Figure 5

Overtime Owed to Employees But Not Yet Paid
31 March
($ 000's)

Department	1997	1998	1999	2000	2001
Works, Services and Transportation	$ 970	$ 955	$1,259	$1,541	$2,372
Tourism, Culture and Recreation	154	258	334	409	526
Government Services and Lands	52	55	64	66	244
Executive Council	203	226	223	182	230
Mines and Energy	52	38	56	100	158
Development and Rural Renewal	55	46	42	98	156
Human Resources and Employment	470	175	300	89	84
Forest Resources and Agrifoods	45	48	171	202	79
Finance	52	38	38	45	68
Justice	16	24	36	39	49
Fisheries and Aquaculture	106	47	18	42	38
Environment and Labour	78	82	133	160	85
Health and Community Services	7	6	63	8	26
Education	81	65	69	84	21
Municipal and Provincial Affairs	29	38	49	53	16
Industry, Trade and Technology	24	17	28	14	13
Legislature	11	7	9	9	7
Total	**$2,405**	**$2,125**	**$2,892**	**$3,141**	**$4,172**

Source: Consolidated Revenue Fund Financial Statements and Supporting Working Papers

The increase in accumulated overtime each year is comprised of new overtime earned, reduced by overtime which has been paid for and overtime which has been used as paid leave. While the total amount owed each year is increasing and some Government departments do have systems in place to record information on overtime, Government does not determine how much new overtime was recorded, how much of this overtime was used as paid leave, and how much was paid for. Since Government does not know the total overtime incurred during the year, it cannot adequately manage overtime incurred by government departments.

3.8 A Review of Overtime

Our review indicated that as of 31 March 2001, 43 individuals were each owed in excess of $10,000, representing a liability of $731,600 for approximately 31,500 hours, 5 employees were owed in excess of $25,000 each and one individual has accumulated over 1,882 hours or $47,615 in overtime. In a number of cases, these individuals were also paid during the year for some of their overtime.

We selected a number of employees and reviewed the changes to their unpaid overtime balances. For the most part, adequate supporting documentation was on file. However, although the overtime was approved by supervisors, in most instances, where applicable, Requests for Overtime Performance were not approved prior to performance of the overtime as required by Government policy.

Overtime Payments - Detailed

As indicated in Figure 6, for the year ended 31 March 2001, 4,383 employees were paid overtime in the amount of $13.5 million. Figure 6 also provides information on various ranges of overtime compensation received by the employees.

Figure 6

Summary of Overtime Payments
Year Ended 31 March 2001

Amount	Number of Employees	% of Employees	Amount ($ Million)	% of Total Amount
In excess of $30,000 each	3	.1	.1	.7
Between $20,000 - $30,000 each	32	.7	.8	5.9
Between $10,000 - $20,000 each	232	5.3	3.0	22.2
Sub-Total of more than $10,000 each	267	6.1	3.9	28.8
Less than $10,000 each	4,116	93.9	9.6	71.2
Employees paid overtime	**4,383**	**100.0**	**13.5**	**100.0**

Source: General Service Payroll System

3.8 A Review of Overtime

Our review of the information provided in Figure 6 indicated the following:

- Of the 4,383 employees who received overtime payments during the year ended 31 March 2001, 267 (or 6.1%) were paid more than $10,000 each in overtime compensation for a total of $3.9 million or 28.8% of total overtime compensation.

- Of the 267 individuals receiving more than $10,000 each, 90 (or 34%) are employed in the Marine Services Division of the Department of Works, Services and Transportation. Of the $3.9 million in overtime paid to employees in excess of $10,000 each, these 90 individuals were paid $1.5 million (or 38%) of the $3.9 million. One individual was paid approximately $41,435 in overtime compensation, representing almost 112% of the individual's annual salary. A second individual was paid approximately $29,000 in overtime compensation or 73% of annual salary.

  Of the 4,116 individuals receiving less than $10,000 each, 109 (or 3%) are employed in the Marine Services Division of the Department of Works, Services and Transportation. Of the $9.6 million in overtime paid to employees less than $10,000 each, these 109 individuals were paid $480,000 (or 5%) of the $9.6 million.

- Of the 4,116 employees who received less than $10,000 each in overtime payments, 317 were employees of the Royal Newfoundland Constabulary who were paid $865,000 (or 9%) of the $9.6 million.

- Of the 267 employees who received greater than $10,000 each in overtime payments, 34 were employees of the Labrador District of the Department of Works, Services and Transportation who were paid $397,000 (or 10%) of the $3.9 million.

We selected a random sample of 150 payments to individuals and reviewed the supporting overtime records for these payments. This review identified 10 payment errors ranging from an underpayment of $18 to an overpayment of $1,015. The total value of payments tested was $73,154 with total error of $1,797 overpayment. In addition, for the most part, Requests for Overtime Performance were not approved prior to performance of the overtime as required by Government policy.

3.8 A Review of Overtime

Recommendation

Government should review overtime incurred to ensure it is reasonable and to determine whether changes can be made to reduce the amount of overtime being incurred, while at the same time implement information systems to provide details of overtime.

Treasury Board Secretariat's Response

Treasury Board is very concerned with the growth in overtime costs, and in fact had initiated its own review prior to receipt of the Auditor General's Report. A Committee has been established to look at ways and means to reduce overtime costs, to ensure current policies are being enforced and to determine if new policies and procedures are required.

3.9 A Review of Succession Planning

Introduction

Human capital is the collective knowledge, skills, and experience of an organization's staff. Investment in human capital within the public service is significant. Recorded in Government's Summary Financial Statements for the year ended 31 March 2001 are salaries and employee benefits of $1.5 billion which represents 36% of total expenditure. The focus of this report is on central Government operations which recorded $337 million in salaries and employee benefits in the Consolidated Revenue Fund Financial Statements for the year ended 31 March 2001. The maintenance and development of human capital within the public service is essential for the delivery of quality public service.

Scope and Objectives

We completed our review in June 2001. The objectives of our review were:

- to develop a demographic profile of the core public service at 31 March 2001 with comparative historical profiles as of 1987, 1992 and 1997; and
- to determine whether Government has programs in place to adequately maintain its human capital.

For purposes of our review, the core public service is defined as employees active on the payroll who are classified as permanent, temporary or contractual, including inactive employees who are expected to return to work (e.g. paid or unpaid education leave, extended sick leave, injury on duty, leave without pay, maternity leave), but excluding Members of the House of Assembly, political staff, special project staff, students and student assistants.

Conclusions

Over the past fifteen years, there has been a significant increase in the average age of the core public service. From 1987 to 2001, the average age of the core public service has increased from 38.8 years to 42.4 years, an increase of 3.6 years or 9.3%.

During this same period, the age distribution of the public service has changed dramatically with the percentage of employees less than 35 years of age decreasing from 41% to 21%, while employees between 36 and 49 years of age increased from 40% to 55% and employees aged 50 years and older increased from 19% to 24%.

Over the next six years, 25% of the core public service including 46% of Executive and 41% of Senior Managers will reach the age of 56 or older and may retire. By 2012, at least 42% of the core public service, including 76% of Executive and 70% of Senior Managers may retire. These statistics indicate the need for succession planning in Government including recruitment and retention strategies, and training and development.

While Treasury Board Secretariat and Government departments have identified the need for succession planning as a significant human resources issue, plans of actions to address this issue have been isolated, are general in nature, or are planned for development in 2002 and beyond. Unless Government implements effective human resources strategies to address the upcoming retirement of a significant portion of the core public service, including recruitment and training, the attrition rate due to retirement has the potential to leave a significant gap in the knowledge, skills and experience required to provide a quality public service.

Findings

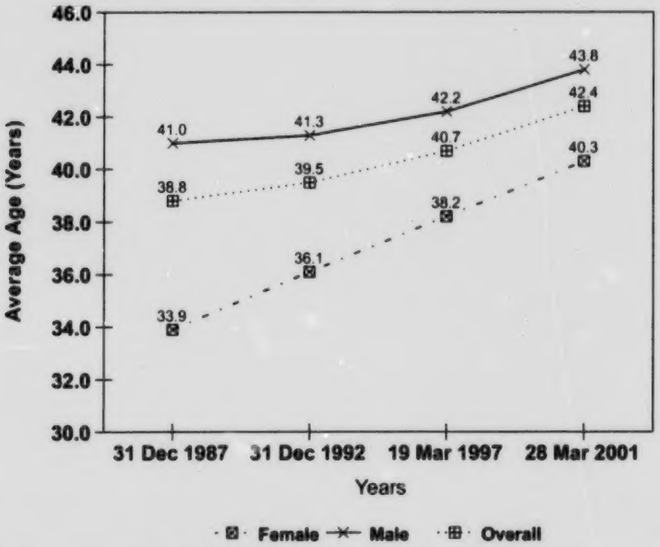
Average Age - Core Public Service

Over the past fifteen years, there has been a significant increase in the average age of the core public service.

As at 31 December 1987, the average age of the core public service was 38.8 years. By 31 March 2001, this had increased to 42.4 years, or an increase of 3.6 years on average or 9.3%. Figure 1 outlines average ages of the core public service, male and female, at select points in this period.

Figure 1

Core Public Service - Average Age (Years)



* Data for 1987 and 1992 only available as of 31 December of those years.
Source: General Service Payroll

While there has been significant re-organization of government departments since 1987, the experience at the departmental level also evidences the increasing age of the core public service. With the exception of the Department of Tourism, Culture and Recreation and its predecessor as of 1987, the average change in age of employees within individual departments has increased from a high of 9.2 years, to a low of 2.0 years. Figure 2 outlines the average age by department as of 1987 and 2001. This figure also shows that the average employee age in many of the departments is greater than the public service average age of 42.4.

Figure 2

Core Public Service - Average Age (Years)
By Department

Department	31 Dec 1987	31 Mar 2001	Increase (Decrease)
Mines and Energy	34.9	44.1	9.2
Forest Resources and Agrifoods	36.4	43.4	7.0
Health and Community Services	36.0	42.4	6.4
Fisheries and Aquaculture	39.2	45.5	6.3
Human Resources and Employment	34.8	41.0	6.2
Government Services and Lands	37.4	43.4	6.0
Municipal and Provincial Affairs	38.0	43.6	5.6
Environment and Labour	38.0	43.4	5.4
Justice	35.0	40.1	5.1
Executive Council	37.4	41.7	4.3
Development and Rural Renewal	37.7	42.0	4.3
Legislature	36.5	40.7	4.2
Finance	37.0	41.1	4.1
Education	38.5	42.4	3.9
Industry, Trade and Technology	39.0	42.1	3.1
Public Service Commission	43.4	45.9	2.5
Works, Services and Transportation	43.4	45.4	2.0
Tourism, Culture and Recreation	38.5	36.6	(1.9)
Total Employees	**7,579**	**7,132**	**(447)**
Average Age	**38.8**	**42.4**	**3.6**

Source: General Service Payroll

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Source: General Service Payroll

Our review also included analyzing the average age profile by pay group for 1987 and 2001, the results of which are presented in Figure 3.

Figure 3

Core Public Service - Average Age (Years)
Pay Groups

Pay Group	31 December 1987	31 March 2001	Increase (Decrease)
Constabulary	29.8	38.7	8.9
General Service	35.6	41.0	5.4
Warders	33.5	38.5	5.0
Marine Services	41.6	45.4	3.8
Other	44.8	48.3	3.5
Management	42.2	45.1	2.9
Solicitors	36.6	39.2	2.6
Air Services	38.3	40.6	2.3
Maintenance and Operational Service	45.1	46.2	1.1
Executive	47.3	48.1	0.8
Institutional Support (Note 1)	39.5	39.7	0.2
Total Employees	7,579	7,132	(447)
Average Age	38.8	42.4	3.6

Source: General Service Payroll
(Note 1) Includes employees at Government operated correctional and educational institutions

This analysis indicated that there has been significant increases in the average age of individuals within several pay groupings, including Royal Newfoundland Constabulary uniformed members, General Service, and Warders.

Age Distribution

In addition to the increasing average age of the core public service, there has been a marked alteration in the age distribution. As indicated in Figure 4, there has been a significant reduction in the percentage of employees less than 35 years of age, from 40.6% in 1987 to 20.7% in 2001. This reduction has been reflected in a notable increase in the percentage of employees between the ages of 35 to 49 years and 50 to 65 years.

3.9 A Review of Succession Planning

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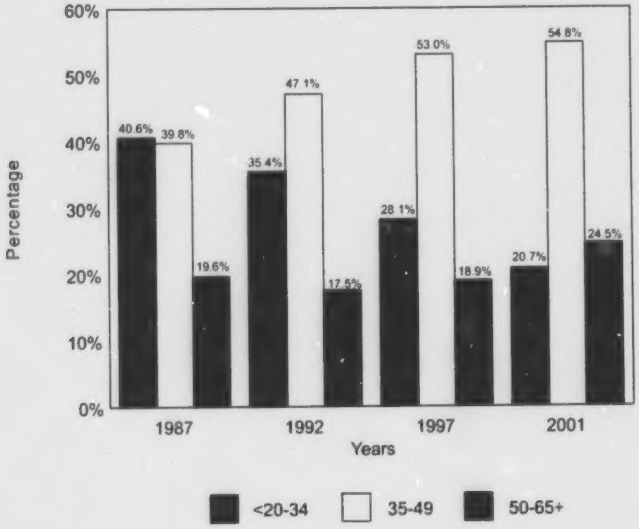
Figure 4

Core Public Service
Workforce Distribution by Age Groups
Percentage



Source: General Service Payroll

As indicated above, the core public service is aging. At the same time that the core public service is aging, the average retirement age under the Public Service Pension Plan (which covers most of the pay groups of the core public service) has been decreasing. Information on the average retirement age for participants in the Public Service Pension Plan (PSPP) is provided in Figure 5 and shows that the current average retirement age is 56. Thus, as Figure 4 indicates, over the next 6 years, 25% of the core public service as a whole will be 56 years of age or older and may retire. Extending this analysis to individuals who are 45 years of age or older indicates that 42% of the core public service may retire by 2012.

Figure 5

Average Retirement Age
Public Service Pension Plan

Date	Average Retirement Age (Years)
31 December 1992	59.2
31 December 1994	57.2
31 December 1997	56.9
31 December 2000	56.1

Source: Actuarial Valuations and Pensions Payroll

During our review, we also examined the age distributions of staff on various pay groups. The analysis for the Executive is outlined in Figure 6. As this Figure shows, the percentage of individuals within the Executive pay group in the 50 to 65 year age category, and who may retire within the next 6 years, has increased from 38.0% in 1987 to 45.7% in 2001. Extending this analysis to the Executive who are 45 years of age or older indicates that 76% of this group may retire by 2012.

Figure 6

Executive Pay Group
Workforce Distribution by Age Groups
Percentage

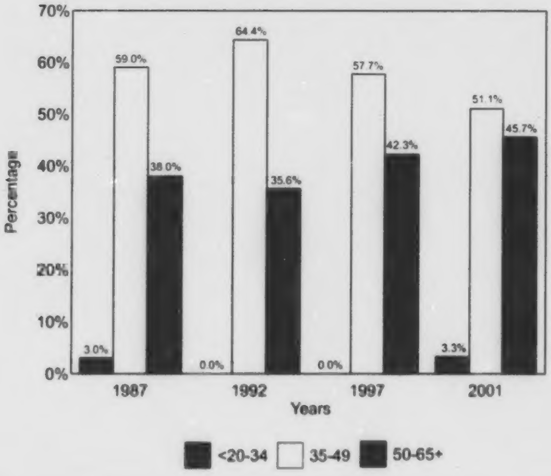
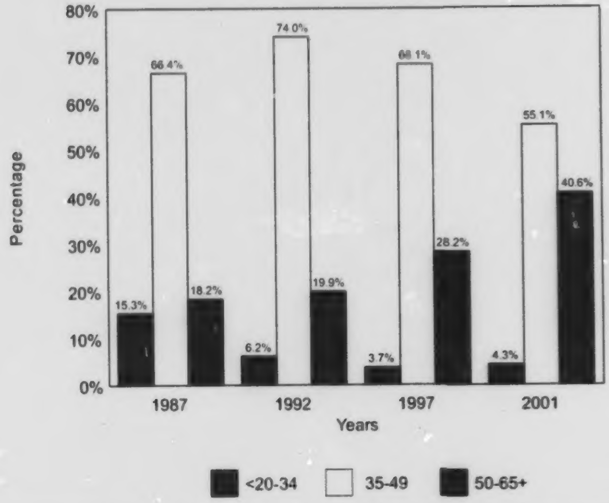


Figure 7 shows the age distributions of staff in the Senior Management pay group (those paid on the HL pay scale at a level of HL-25 and above) and indicates that the increase in the percentage of individuals in the 50 to 65 years age category, and who may retire within the next 6 years, has been very significant, increasing from 18.2% in 1987 to 40.6% in 2001. Extending this analysis to the Senior Management who are 45 years of age or older indicates that 70% of this group may retire by 2012.

Figure 7

Senior Management Pay Group
Workforce Distribution by Age Groups
Percentage



Thus, over the next six years, 25% of the core public service including 46% of Executive and 41% of Senior Managers will reach the age of 56 or older and may retire. By 2012, at least 42% of the core public service, including 76% of Executive and 70% of Senior Managers may retire. These statistics indicate the need for succession planning in Government including recruitment and retention strategies, and training and development.

3.9 A Review of Succession Planning

Maintaining Human Capital

To determine what programs or initiatives Government has in place to address the issue of succession planning, we contacted officials of Treasury Board Secretariat and the Public Service Commission. We also sent a questionnaire to officials of 16 departments. Our review of this area indicated that very little work has been done in the area of succession planning at either a central government level or a departmental level as follows:

- All of the 11 departments which responded to our questionnaire indicated that they have not commenced any formal succession planning initiatives.

- Officials of Treasury Board Secretariat informed us that they have been developing a demographic profile of the core public service on a periodic basis since 1998. They also informed us that this was a very time consuming initiative as Government does not have a central human resources management information system that could readily provide this information.

  During 2000-01, Treasury Board Secretariat requested officials of the 16 Government departments to submit either a Human Resources Plan or a Human Resources Issues Statement. Our review of the responses received from departments indicated the following:

  - 7 departments did not submit a Human Resources Plan or a Human Resources Issues Statement. Of particular note is that these were primarily the larger Government departments.

  - 2 departments only submitted Human Resources Issues Statements for certain divisions of the Department.

  - 2 departments submitted a Human Resources Issues Statement.

  - 5 departments submitted a Human Resources Plan.

3.9 A Review of Succession Planning

Our review of the 9 submissions to Treasury Board Secretariat indicated that, while succession planning was identified as an important issue, plans of action to address this issue have been isolated, general in nature, or are planned for development in 2002 and beyond. Four of the 9 departments also identified the lack of a comprehensive human resources management information system as a weakness in their planning initiatives.

- The Public Service Commission provides personnel planning advisory services, including succession planning, but will only assume this advisory role when requested to do so by a department.

  In an effort to provide qualified candidates to fill future staffing needs, the Public Service Commission operates two specific programs, the Graduate Recruitment Program and the Career Assignment Program for Senior Managers. The Graduate Recruitment Program provides employment opportunities for graduates of post secondary institutions and currently has 29 recruits participating in the Program. The Career Assignment Program is an executive development program and there are currently 4 candidates registered.

Recommendations

Treasury Board Secretariat, in conjunction with the Public Service Commission and departments, should immediately undertake a review of future staffing needs to ensure that the necessary programs are in place to maintain their human capital.

Treasury Board Secretariat should ensure that the necessary information systems are in place to provide human resources management information required for effective planning.

Treasury Board Secretariat's Response

Treasury Board Secretariat acknowledges the Auditor General's concerns with respect to our ability to maintain our human capital.

To address those concerns, a number of measures have been implemented as follows:

- *An Associate Secretary position in Treasury Board has been established with responsibility for human resource management.*

3.9 A Review of Succession Planning

- *A human resource planning process has been initiated; and as part of this process, all departments have been asked to identify critical, hard to fill positions.*
- *A Graduate Recruitment Program has been reinstated, and twenty-nine recruits have been hired to date.*
- *A Management Development Program has been established in co-operation with Memorial University for Government managers.*

Planning is underway for other initiatives that will ensure Government is in a position to maintain its human capital.

3.10 Review of Protocol Expenditures

Introduction

The Protocol Office functions under the Cabinet Secretariat of the Office of the Executive Council. The Protocol Office is responsible for the co-ordination of major Government sponsored events, and the arrangement of itineraries for visiting dignitaries. This includes:

- organizing large scale intergovernmental conferences;
- programming visits of Heads of Diplomatic Missions in Canada;
- organizing major government policy announcement receptions;
- state funerals;
- flight stopover procedures (foreign diplomats and government officials);
- swearing-in ceremonies (Ministers of the Crown);
- vice-regal installation (Lieutenant-Governor); and,
- Newfoundland and Labrador Bravery Awards.

Expenditures of the Protocol Office over the last five fiscal years ended 31 March are presented in Figure 1.

Figure 1

Protocol Expenditures
Years Ended 31 March

Activity	2001	2000	1999	1998	1997
Salaries	$134,633	$119,871	$88,510	$148,733	$119,198
Transportation and Communication	44,286	54,895	16,413	31,473	28,106
Supplies	24,412	46,872	40,297	12,949	14,750
Purchased Services	218,259	168,573	148,026	226,608	42,269
Property, Furnishings and Equipment	6,848	1,268	0	599	0
Grants and Subsidies	0	10,000	0	0	0
Related Revenue	0	0	(453)	(3,772)	0
Total	**$428,438**	**$401,479**	**$292,793**	**$416,590**	**$204,323**

Source: Public Accounts

3.10 Review of Protocol Expenditures

Scope and Objective

We completed our review of protocol expenditures in November of 2001. We reviewed expenditures charged to the Protocol Office for the year ended 31 March 2001 and held discussions with officials of the Protocol Office. The objective of our review was to determine whether these expenditures were in accordance with the budget approved by the Legislature.

Conclusions

Expenditures totalling $676,431 were charged to Protocol accounts for the year ended 31 March 2001. Of this amount, $150,867 was subsequently transferred to other expenditure accounts. The $150,867 charged to Protocol was not Protocol expenditure and as a result, expenditures were made from this account for purposes other than those approved by the Legislature and in contravention of the *Financial Administration Act*.

Travel for the Premier and his staff is being charged not only to the Protocol Office and the Premier's Office but also to the Minister's Office in other departments and in many cases, to expenditure accounts other than the Minister's Office. In addition, our review indicated that $12,815 in travel costs for the Premier and his staff that was originally paid through the Protocol account was subsequently reimbursed by Newfoundland and Labrador Hydro and recorded as an expenditure in that Corporation. As a result, some of these expenditures are not being charged to appropriate expenditure accounts. In addition, as this travel is charged to such a variety of accounts, any information requests pertaining to travel for the Premier and his staff are very difficult to determine.

Contrary to Government policy, departments are not always informed of expenditures being transferred from Protocol to expenditure accounts in their departments. This process of transferring expenditures from Protocol to other departments also makes it more difficult for these departments to manage and control their own operating budgets.

Executive Council is not complying with Government's "Transfer of Funds Policy" as funds were transferred out of an expenditure account even though there were no permanent savings and additional monies had been transferred back in.

Findings

Protocol Expenditures

A review of the protocol expenditure account indicated that for the year ended 31 March 2001, net protocol expenditure of $428,438 was the result of original expenditure charged to protocol of $676,431 and subsequent expenditure adjustments of $247,993.

An analysis of these expenditure adjustments indicated that adjustments included normal vendor credits, travel advance repayments, accounting distribution corrections, and reallocation of costs to other activities within Protocol or to other departments. Figure 2 provides a summary of the adjustments to each account under the Protocol Office for the year ended 31 March 2001.

Figure 2

Gross and Net Protocol Expenditure By Activity
Year Ended 31 March 2001

Activity	Gross Expenditure	Expenditure Adjustments	Net Expenditure
Salaries	$150,078	($15,445)	$134,633
Transportation and Communication	227,459	(183,173)	44,286
Supplies	43,927	(19,515)	24,412
Purchased Services	248,119	(29,860)	218,259
Property, Furnishings and Equipment	6,848	0	6,848
Total	**$676,431**	**($247,993)**	**$428,438**

Source: Financial Management System

Figure 3 provides further information on the composition of the $247,993 in adjustments to the Protocol expenditure account.

3.10 Review of Protocol Expenditures

Figure 3

Transfers from the Protocol Account
Year Ended 31 March 2001

Expenditures transferred from the Protocol Account to:	
Executive Council - Premier's Office	$78,833
Executive Council - Financial Administration	15,832
Executive Council - Intergovernmental Affairs	14,958
Executive Council - Economic Policy Advisory Council	1,499
Fisheries and Aquaculture	19,340
Industry, Trade and Technology	10,211
Human Resources and Employment	5,744
Forest Resources and Agrifoods	2,650
Development and Rural Renewal	1,800
Total expenditures transferred from the Protocol Account	**150,867**
Travel advance repayments	54,857
Other adjustments (most within protocol account)	42,269
Total	**$247,993**

Source: Financial Management System

The expenditures that were initially charged to Protocol and subsequently charged out to other Departments were charged there for a variety of reasons. We were informed by Departmental officials of the following:

- In certain instances there were insufficient funds available in the Premier's Office and in these cases, Treasury Board authority was being obtained for additional funding;

- It was a convenient way to control expenditures and provided a way to redistribute the expenditures to other Departments; and

- It expedited payment of expenditures, travel claims and travel advances since there were always sufficient funds in the Protocol account.

As shown in Figure 3, of the $247,993 in adjustments for the year ended 31 March 2001, $150,867 was subsequently transferred to other expenditure accounts. The $150,867 originally charged to Protocol was not protocol expenditure. As a result, expenditures were made from this account for purposes other than those approved by the Legislature and in contravention of the *Financial Administration Act*.

A further review of these adjustments for the year ended 31 March 2001 indicated the following:

- Travel for the Premier and his staff is being charged to the Minister's Office in other Departments and in many cases, to expenditure accounts in other departments other than the Minister's Office.

  In addition, travel for the Premier and his staff in the amount of $12,815 that was originally paid through the Protocol account was subsequently reimbursed by Newfoundland and Labrador Hydro and recorded as expenditure in that Corporation.

  As a result, some of these expenditures are not being charged to appropriate expenditure accounts. In addition, as this travel is charged to such a variety of accounts, any information requests pertaining to travel for the Premier and his staff are very difficult to determine.

- Discussions with officials of the Departments where travel for the Premier and his staff is being subsequently charged, indicated that they are concerned with these expenditures as they are not initiated by their departments but they are basically informed that these expenditures have been paid and are now being charged to their departments. This process makes it more difficult for these departments to manage and control their own operating budgets.

In addition, although Government policy requires that it is necessary to obtain the approval of the other department before charging an expenditure to their department, a number of these officials indicated that they were not aware that some of these expenditures had been charged to their departments.

Compliance with the Transfer of Funds Policy

A comparison of the budget approved for Protocol expenditures by the Legislature, amended estimates and actual expenditures for the year ended 31 March 2001 is shown in Figure 4.

Figure 4

Protocol
Original and Amended Estimates, Actual Expenditures, and Variances
Year Ended 31 March 2001

Activity	Original Estimates	Amended Estimates	Actual Expenditure	Variance between Original Estimates and Actual Expenditure
Salaries	$106,000	$134,900	$134,633	$28,633
Transportation and Communication	250,000	114,400	44,286	(205,714)
Supplies	50,000	45,000	24,412	(25,588)
Purchased Services	210,000	237,600	218,259	8,259
Property, Furnishings and Equipment	0	7,000	6,848	6,848
Total	**$616,000**	**$538,900**	**$428,438**	**($187,562)**

Source: Estimates and Public Accounts

The original budget for Protocol for 2000-01 was $616,000. The budget was subsequently reduced by $77,100 to a total of $538,900 with actual expenditures of $428,438. As Figure 4 shows, the budget for the transportation and communication account of the Protocol Office is significantly higher than actual expenditures. Our review indicated that the Protocol Office accounts are being used to process travel and travel related charges of the Premier's Office which are subsequently redistributed to other Departments and the Premier's Office.

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3.10 Review of Protocol Expenditures

Under the authority of Section 9 of the *Financial Administration Act*, the Lieutenant-Governor in Council has established policies respecting adjustments to the original budget approved by the Legislature. This "Transfer of Funds Policy" permits certain transfers of funds to be made only with Treasury Board approval while others require only the approval of the Deputy Minister. In approving transfers of funds, Deputy Ministers are required to ensure that the savings transferred from one account to another are of a **permanent** nature.

The amendments to the original budgets for 2000-01 were effected through a number of budget transfers throughout the year, a summary of which is provided in Figure 5.

Figure 5

Budget Transfers
Year Ended 31 March 2001

Activity	Original Estimates	Transfers To Protocol	Transfers From Protocol	Amended Estimates
Salaries	$106,000	$28,900	$0	$134,900
Transportation and Communication	250,000	0	135,600	114,400
Supplies	50,000	0	5,000	45,000
Purchased Services	**210,000**	**37,000**	**9,400**	**237,600**
Property, Furnishings and Equipment	0	7,000	0	7,000
Total	**$616,000**	**$72,900**	**$150,000**	**$538,900**

Source: Public Accounts and Budget Estimates

There were 42 budget transfers to various protocol activities in 2000-01. A review of these budget transfers indicated that 6 transfers in the amount of $37,000 were made back into accounts for Purchased Services after 4 transfers in the amount of $9,400 had already been transferred out of the accounts on the basis that there were permanent savings. As a result, Executive Council did not comply with the Transfer of Funds Policy.

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Supplies	50,000	0	5,000	45,000
Purchased Services	**210,000**	**37,000**	**9,400**	**237,600**
Property, Furnishings and Equipment	0	7,000	0	7,000
Total	**$616,000**	**$72,900**	**$150,000**	**$538,900**

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Department's Response

During 2000-01 unanticipated travel expenses were incurred by the Office of the Premier in several initiatives like the Churchill Falls Development, the Voisey's Bay Project and intergovernmental meetings (eg. First Ministers' meeting). These expenses were unforseen by the Office, and exceeded the established Office travel budget (which was decreased significantly in 1989 and has remained at a lower level since that time).

Government's 1997 "Transfer of Funds Policy" was intended to allow more flexibility in day to day management of departmental operations. In the spirit of this policy, Executive Council adopted the approach of placing Premier's unforseen travel expenses through Protocol Division, thereby creating a single point for managing unanticipated travel and facilitating orderly payment of claims. In all cases, travel was subsequently charged to the appropriate departments/agencies who are notified of charges being directed to their accounts.

It should be noted that the practice of provisionally charging Premier's Office travel to Protocol was stopped in March 2001, and there have been no further provisional charges to this account by the Premier's Office since that time. The whole issue of the travel budget for the Premier's Office will be considered through the upcoming budget process.

3.11 Labrador Transportation Initiative Fund

Introduction

In March 1997, the Federal and Provincial governments agreed that the Province would assume all responsibility for the operation of marine freight and passenger services on and to the coast of Labrador in exchange for $340 million plus interest. The Province received $347.6 million in December 1997 as a cash settlement, together with related ferry service infrastructure.

In January 1998, $349.2 million, representing the $347.6 million plus accrued interest, was transferred from the Province to the Labrador Transportation Initiative Fund (the Fund). The Fund operates under the authority of the *Labrador Transportation Initiative Fund Act*, enacted 19 December 1997. Its affairs are managed by a Board of Management appointed by the Lieutenant-Governor in Council. The objective of the Board is to authorize payments from the Fund to the Consolidated Revenue Fund of the Province of Newfoundland for the construction of the Trans Labrador Highway, maintenance of marine and ferry services to Labrador, and other Labrador initiatives related to transportation which the Lieutenant-Governor in Council may approve.

Sign at the Labrador West side of the Trans Labrador Highway

3.11 Labrador Transportation Initiative Fund

Scope and Objectives

We completed our review in October 2001. Our review focussed on how the Province plans to use the $349.2 million transferred to the Labrador Transportation Initiative Fund. The objective of our review was to determine whether the Province can construct the Trans Labrador Highway and maintain the Labrador ferry services using the money received from the Federal Government.

Conclusions

In September 1996, Cabinet authorized the Premier and the Minister of Works, Services and Transportation to meet with the Federal Minister of Transport to establish principles upon which the Province and the Federal Government could negotiate funding for a Labrador transportation initiative. The framework for the initiative was to include provision whereby the Province would accept responsibility for the Labrador Coastal Service and the St. Barbe Ferry Service in return for financial compensation from the Federal Government sufficient to operate these services in perpetuity.

In March 1997, the Province entered into an agreement with the Federal Government and received $347.6 million in December 1997 as a cash settlement, together with related ferry service infrastructure. In consideration for this compensation, the Province assumed all responsibility for maintaining the operation of marine freight and passenger services on and to the coast of Labrador. Government decided that the Fund would be used to operate the Labrador ferry services and construct the Trans Labrador Highway. The $347.6 million was invested by the Province and interest earned increased it to $349.2 million by January 1998 when it was transferred to the Labrador Transportation Initiative Fund.

In May 2001, the Department of Works, Services and Transportation estimated that the Labrador Transportation Initiative Fund will be depleted by 2014-15 after construction of the Trans Labrador Highway at an estimated cost for Phases I and II of $190.4 million, and estimated annual operating costs for the Labrador ferry services from 2002-03 to 2014-15 ranging from $13 million to $15 million. The operating costs estimated by the Department are based on discontinuing the ferry services from Lewisporte and St. Anthony to Labrador and disposing of the two ferry vessels, the Sir Robert Bond and the Northern Ranger. Our review indicated that as at November 2001, Government had increased its estimated costs to operate the Labrador ferry services for 2001-02 and 2002-03, and as a result, the Fund will be depleted earlier than 2014-15.

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3.11 Labrador Transportation Initiative Fund

Detailed Findings

In September 1996, Cabinet *"...authorized the Premier and the Minister of Works, Services and Transportation to meet with the federal Minister of Transport to establish the principles upon which the province and the federal government will negotiate funding for a Labrador Transportation Initiative...the framework for the Initiative to include ...the province will accept responsibility for the Labrador Coastal Service and the St. Barbe Ferry Service for financial compensation from the federal government sufficient to operate the services in perpetuity..."*

In March 1997 the Federal and Provincial governments entered into an agreement whereby *"In consideration of the payments from Canada ... the Province hereby ... assumes, effective April 1, 1997, all responsibility for the operation of marine freight and passenger services on and to the coast of Labrador and covenants to maintain them at such levels..."* The consideration referenced in the agreement consisted of a $340 million cash settlement plus accumulated interest to date of transfer, received from the Federal Government in December 1997, together with related ferry service infrastructure. In consideration for this compensation, the Province assumed all responsibility for the operation of marine freight and passenger services on and to the coast of Labrador.

In January 1998, $349.2 million was placed in the newly established Labrador Transportation Initiative Fund.

During 1998, Government prepared a seven year expenditure projection relating to the Labrador ferry operation and the construction of the Trans Labrador Highway from the newly established Labrador Transportation Initiative Fund. At this point in time Government expected that the vessels could be operated in perpetuity even after funding the construction of the Trans Labrador Highway. Government estimated that the Trans Labrador Highway would be completed in 2002-03 at a total cost of $190 million, that the cost of the Labrador ferry operations to 2003-04 would be $83.3 million, and that there would be sufficient monies left in the Fund to pay operating costs of the Labrador ferry services in perpetuity.

3.11 Labrador Transportation Initiative Fund

Trans Labrador Highway showing the Old and New Highway

From 1998 to May of 2001 the projected costs did not change significantly and it appeared that there would be sufficient monies in the Fund to operate the Labrador ferry services in perpetuity.

In May 2001, however, Government updated its cost estimates which indicated that the Fund would be depleted in 2014-15. The early depletion of the Fund is attributed to the following:

- in 1998 it was estimated that it would cost $12.6 million to operate the Labrador ferry services in 2000-01; however, actual costs for that year totalled $20.9 million;
- in 1998 it was estimated that it would cost $11 million to operate the Labrador ferry services in 2001-02; however, in May 2001, Government increased these estimated costs to $21.1 million; and
- in 1998 it was estimated that it would cost $11 million to operate the Labrador ferry services in 2002-03, $9.5 million for 2003-04 and $7 million per year thereafter; however, in May 2001 Government increased its estimated costs to $13.9 million for 2002-03, $13.5 million for 2003-04 and then to a range of between $13 million and $15 million per year thereafter.

3.11 Labrador Transportation Initiative Fund

In November 2001 Government informed us that it had increased its estimated costs to operate the Labrador ferry services to $19.5 million for both 2001-02 and 2002-03. As a result, it is expected that the Fund will be depleted earlier than 2014-15.

Board's Response

The Board is concerned with the rising cost estimates provided by the Department of Works, Services and Transportation with respect to the Labrador ferry services and that the reduction in those costs has not occurred as a result of constructing the Labrador highway.

I note that the Labrador Transportation Fund is operating in accordance with the Labrador Transportation Initiative Fund Act, and the management of the ferry operations is the responsibility of the department. Issues related to those expenditures would be dealt with through the budgetary process.

3.12 Computer Hardware - Agencies of the Crown

Introduction

In the past decade, Government agencies have become increasingly reliant on computer technology to deliver and manage its programs. Accordingly, these agencies have made significant investments in computer hardware which consists of items such as computers, monitors and printers. Computer hardware is considered to be a moveable capital asset and as such, is susceptible to misappropriation or unintentional loss. As a result, it is important that all Government agencies have proper procedures and inventory systems in place to control and account for this computer hardware.

Scope and Objectives

Our review was completed in May of 2001 and covered the period from 1 April 1999 to 31 March 2001. Of the 66 Government agencies included in the Province's Consolidated Summary financial statements, our review was conducted in 15 agencies throughout the Province.

The objective of the review was to assess whether Government agencies have proper procedures and inventory systems in place to control and account for their computer hardware, including the following:

- a system that registers and documents basic information on each piece of computer hardware acquired including the cost, a unique identification number and assigned location;
- a system that captures information on the movement and disposal of computer hardware within an Agency;
- a process that periodically compares the physical computer hardware to that recorded in the records of the Agency and ensures any discrepancies are investigated; and
- documented policies with respect to physical and accounting controls over computer hardware.

Conclusions

Our review indicated that controls over computer hardware in the 15 Government agencies reviewed are not adequate. Specifically:

- Agencies can not always locate their computer equipment. 3 of the 15 agencies reviewed did not have an inventory information system. Of the 12 remaining agencies that did have a system or an inventory listing, the information in these systems or on the listing was not complete or accurate.

  Our review at the 12 agencies that had an inventory information system indicated the following:

- A sample of 241 purchases was selected of which 154 purchases were not recorded in the agencies' inventory information system and 36 items could not be located by the agencies at the time of our review. Subsequent to our review, agency officials indicated that 20 of 36 items not located at the time of our review were found and 2 had been disposed.

- A sample of 699 items from the inventory information systems was selected of which 438 items of hardware or 63% were found where recorded in the inventory information systems, 97 items of hardware or 14% were found in a different location from that recorded in the inventory information systems and 164 items of hardware or 23% as recorded in the inventory information systems could not be located by either ourselves or officials of the particular agencies at the time of our review. Subsequent to our review, agency officials indicated that 45 of 164 items of hardware not located at the time of our review were found in a different location from that recorded in the inventory information system and 7 had been disposed.

- A sample of 685 items of computer hardware was selected of which 254 items of hardware or 37% were found as recorded in the inventory information systems, 99 items of hardware or 14% were found in a different location from that recorded in the inventory information systems and 332 items of hardware or 49% that were examined were not recorded in the agencies' inventory information systems.

- Periodic physical counts of computer hardware are not conducted by 12 of the 15 agencies reviewed. One agency recently conducted a physical count of computer hardware, but there are no plans to conduct this count on an annual basis. The remaining 2 agencies indicate that they perform annual counts; however, one of these agencies did not provide us with any evidence of these counts and the inventory system maintained by the other agency is not maintained in an adequate manner to ensure an effective reconciliation with the physical count.

- Only 4 of the 15 agencies had documented and approved inventory control procedures for computer hardware.

Individual reports have been provided to the 15 agencies and issues identified during our review have been discussed with their respective officials.

3.13 Monitoring of School Boards

Introduction

In 1996 the school system in the Province was reorganized with the dissolution of 27 church run school boards and the creation of 10 new English language school boards and one French language school board. The 27 school boards continued to exist and administer the schools within their jurisdiction until their dissolution on 31 December 1996. As at 31 December 1996, there were approximately 445 schools in the Province with a total enrolment of 110,450 students. As at 31 December 2000, there were 337 schools with a student enrolment of 90,167. The number of schools and student enrolment have declined by 24% and 18% respectively, in the past five years.

Our review of school boards in 2001 included an assessment and comparison of the financial position and operating results of each of the 11 boards.

Financial Position

The 11 school boards had accumulated deficits totalling $100.006 million for the year ended 30 June 2001. This is comprised of $96.741 million in accrued severance pay and a net accumulated operating deficit of $3.265 million. A summary of these deficits by school board is disclosed in Figure 1.

Figure 1

Department of Education
School Boards
Accumulated Surplus (Deficit)
For the Years Ended 30 June
($ 000's)

District	2001			2000		
	Total	Severance	Operating	Total	Severance	Operating
1	$ (6,492)	$ (5,543)	$ (949)	$ (5,882)	$ (5,415)	$ (467)
2	(4,583)	(4,394)	(189)	(4,297)	(4,222)	(75)
3	(9,578)	(8,945)	(633)	(9,901)	(9,159)	(742)
4	(7,177)	(7,238)	61	(7,178)	(7,273)	95
5	(9,825)	(10,714)	889	(10,276)	(10,766)	490
6	(9,704)	(9,933)	229	(10,280)	(9,983)	(297)
7	(6,995)	(5,797)	(1,198)	(7,043)	(5,866)	(1,177)
8	(5,468)	(4,763)	(705)	(5,468)	(4,763)	(705)
9	(11,610)	(11,304)	(306)	(11,813)	(11,190)	(623)
10	(28,395)	(27,932)	(463)	(27,648)	(27,309)	(339)
11	(179)	(178)	(1)	(161)	(198)	37
Total	**$ (100,006)**	**$ (96,741)**	**$ (3,265)**	**$ (99,947)**	**$ (96,144)**	**$ (3,803)**

Source: 2000-01 audited financial statements, except for 1999-00 audited financial statements for District #8.

Operating Results

During 2000-01, 6 of the 10 boards that had audits completed incurred operating deficits ranging from $21,000 for District 7 to $482,000 for District 1.

Using 1995-96 as the base year which was the last full year that the former 27 school boards operated, school board provincial revenues have declined by $18.4 million, including $5.9 million in teaching services grants, $9.4 million in operating grants and $3.1 million in other revenues. The total revenue per pupil increased by 18% from $4,796 in 1995-96 to $5,636 in 2000-01.

Using 1995-96 again as the base year which was the last full year that the former 27 school boards operated, school board expenditures declined by $17.8 million, comprising $9.1 million in instructional, $5.6 million in administration, and $3.1 million in other expenditures. Expenditure on instruction per pupil increased by 20% from $3,841 in 1995-96 to $4,604 in 2000-01. Figure 2 outlines the revenue and expenditures of the school boards for the year immediately before reorganization, the transition year and for the four years after reorganization.

Figure 2

Department of Education
School Boards
Comparison of Financial Operations
For the Years Ended 30 June
($ 000's)

Financial Item	Former Boards	Transition	Current Boards			
	1996	1997	1998	1999	2000	2001
Revenue						
Provincial grants						
Teachers	$ 397,795	$ 376,178	$ 378,179	$ 380,314	$ 384,611	$ 391,876
Regular operating	84,583	77,789	74,575	73,898	74,248	75,167
Pupil transportation	30,264	29,345	27,666	26,862	26,101	27,086
Other Provincial grants	4,073	4,590	4,691	8,412	4,800	4,112
Total Provincial grants	516,715	487,902	485,111	489,486	489,760	498,241
Federal grants	4,649	4,826	5,090	4,716	4,863	4,981
Ancillary services	1,811	1,330	985	1,032	929	575
Miscellaneous revenue	6,536	5,441	5,608	4,912	4,348	4,347
Total revenue	529,711	499,499	496,794	500,146	499,900	508,144
Expenditure						
Administration	18,730	15,792	14,573	13,281	13,519	13,147
Instructional	424,213	399,536	414,609	405,420	409,511	415,143
Operations and maintenance	48,391	48,549	48,719	50,655	50,212	49,464
Pupil transportation	29,270	30,060	28,331	28,009	26,958	27,864
Ancillary services	490	579	490	425	681	643
Miscellaneous	615	299	167	1,378	924	367
Debt repayment	3,132	2,058	175	343	400	427
Total expenditure	524,841	496,873	507,064	499,511	502,205	507,055
Excess of revenue over expenditure (Expenditure over revenue)	4,870	2,626	(10,270)	635	(2,305)	1,089
Transfer to capital	(3,857)	(4,991)	(3,750)	(4,079)	(4,996)	(2,179)
Increase (decrease) in equity	$ 1,013	$ (2,365)	$ (14,020)	$ (3,444)	$ (7,301)	$ (1,090)

Source: 2000-01 audited financial statements, except for 1999-00 audited financial statements for District #8.

Compliance with Legislation

As indicated previously, during 2000-01, 6 of the 10 boards that have audits completed, incurred operating deficits. There was no approval given by the Minister to these 6 boards as required by the *Schools Act, 1997*. As a result, these boards did not comply with the *Schools Act, 1997*.

In addition, the *Schools Act, 1997* requires each school board to submit its annual budget to the Minister at a date determined by the Minister. As of the date of our review in November 2001, the Department had received seven of the required 2001-02 budgets from the 11 school boards; five were received prior to the required date of 28 September 2001.

Department's Response

Financial Position

Reporting that school boards had accumulated operating deficits totalling $100,265,000 without explaining how this originated distorts the true operating results relative to approved budgets. School boards were directed by the Department of Education to report the accrued severance costs to comply with generally accepted accounting principles. However, having consulted with the Comptroller General's Office, the department advised school boards not to record an offsetting accounts receivable from government for this amount because the funding approved annually to cover teachers' severance payouts is considered to be a grant and not an entitlement. Consequently, school boards have no choice but to report a significant operating deficit. With this in mind we have provided your staff with an amended summary of the deficits by school board.

Operating Results

We reviewed the summary of school boards' operating results as per Figure 2 of your report and staff in our Division of Financial Services have been in touch with your staff and a revised summary was prepared and provided to your office.

3.13 Monitoring of School Boards

Compliance with Legislation

We concur with this observation. However, in regards to the delay in receiving budget submissions for the year 2001-02, the reason for this is due to the disruption in the operations of several school boards due to the NAPE strike.

The timeliness of these submissions is an ongoing concern for the department. It is our intention to continue to closely monitor the situation to ensure that budget submissions, etc. are received and administered in compliance with governing legislation.

3.14 C.A. Pippy Park Commission

Introduction

The C.A. Pippy Park Commission (the Commission) was incorporated in 1968 and operates under the authority of the *Pippy Park Commission Act* (the Act). The purpose of the Commission is to provide a park-like setting to house the headquarters of the Provincial Government, as well as various government, cultural and educational facilities, and Memorial University of Newfoundland. Its affairs are managed by a Board of Commissioners, the majority of whom are appointed by the Lieutenant-Governor in Council. The Commission has broad powers under the Act to implement a master plan and accordingly regulate land use within C. A. Pippy Park. In its financial statements for the year ended 31 March 2001, the Commission reported an operating deficit of $261,000 (2000 - deficit of $85,000).

The majority of Commission operating revenues result from the provision of services to the public including operation of the trailer park and rental of Commission facilities. While the Commission has in the past received significant operating grants from the Province, such grants have been greatly reduced in recent years. Capital grants have also been provided to the Commission by Government over the years to fund expenditures for Park development, including acquisition of land and property from private owners, construction of facilities, and major improvements to land and property. The amount of capital funding provided each year varies; however, the level of capital grants have also been reduced in recent years. It is Government's objective that the Commission become as self sufficient as possible.

The Commission currently owns the two golf courses located within Pippy Park. In November 1997, an agreement covering the management and operation of the two golf courses was entered into between the Commission, Thomas Development (1989) Corporation (TDC) and the Minister of Works, Services and Transportation on behalf of the Province. Under the agreement, TDC is to manage and operate the golf courses for an initial seven year term expiring 31 December 2004, with an option for an extended term after that date.

3.14 C.A. Pippy Park Commission

Admiral's Green 18 hole Golf Course

Scope and Objectives

In March 2001 we completed a review of two significant aspects of Commission operations, namely activities relating to capital transactions and the agreement covering the management and operation of the golf courses. The objectives of our review were to determine whether:

- sufficient and appropriate information was maintained by the Commission to ensure the effective monitoring of both capital transactions and golf course operations; and
- related transactions of the Commission were in compliance with legislation, other authorities and the golf course management agreement.

Conclusions

On 20 November 1997, an agreement covering the management and operation of the two golf courses located within Pippy Park was entered into between the Commission, TDC and the Province. Under the agreement, TDC is to manage and operate the golf courses for an initial seven year term expiring 31 December 2004, with an option for an extended term after that date.

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Financial assistance has been provided to TDC which was not required under the management agreement. This assistance represents a direct subsidy to TDC's operations and can be summarized as follows:

- Short term, interest free, repayable advances of $10,000 made to TDC to cover start-up costs for each of the 1999 and 2000 golf seasons. Such advances were not approved by the Commission. In both instances, the funds advanced were refunded by TDC.

- In February 2001, a special assistance grant of $45,000 was paid by Government, through the Commission, to TDC. The $45,000 was charged to a program in the Department of Municipal and Provincial Affairs used for the *".... payment of special assistance grants to municipalities."* TDC is not a municipality and as a result, the Department of Municipal and Provincial Affairs contravened the *Financial Administration Act*.

- The golf course clubhouse was built and financed by TDC in 1998. Since the clubhouse was financed by TDC, it has been pledged as security for TDC's bank loan. As at the date of our audit, TDC owed the bank approximately $1.3 million. In 2000-01, the Commission spent $270,000 to make renovations on the clubhouse even though it is held as security for TDC's bank loan. Should TDC default on its loan at the bank, the bank would have first access to the clubhouse and other related assets.

- In March 2001, Government directed the Commission to waive the 2001 TDC fee of $250,000 owed to the Commission. In addition, the 31 March 2000 fee of $200,000 has not yet been received.

3.14 C.A. Pippy Park Commission

The Management Agreement between TDC and the Government is not always being complied with.

From 31 March 1998 to March 2001, Government has provided the Commission with $658,000 in capital funding. Of the $658,000, approximately $337,000 was used for purposes other than intended by Government.

During 2000-01, $270,000 was provided by Government to the Commission for renovations at the golf course clubhouse. There was insufficient documentation at the Commission to support approximately $265,000 of the $270,000 spent on the clubhouse renovations in that there were no purchase orders or tenders. As a result, we could not determine how the various suppliers were selected and whether a fair and reasonable price was established.

Findings and Recommendations

Capital Transactions

Over the years, capital grants have been provided to the Commission by Government to fund expenditures for Park development, including acquisition of land and property from private owners, construction of facilities, and major improvements to land and property. Such funds were typically deposited into the Commission's capital account to be expended for the purposes identified by Government. During our review, we identified several issues with respect to the use of these capital funds by the Commission as well as issues surrounding the replacement and recording of capital assets.

1. Transfers from Capital Funding Provided by Government

Since April 1997 to March 2001, Government has provided the Commission with $658,000 in capital funding. As outlined in Figure 1, $336,927 of the $658,000 was used for purposes other than intended by Government.

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Since April 1997 to March 2001, Government has provided the Commission with $658,000 in capital funding. As outlined in Figure 1, $336,927 of the $658,000 was used for purposes other than intended by Government.

Figure 1

C.A. Pippy Park Commission
Expenditures from Capital Funding Provided by Government

Nature of Expenditure	Total Capital Funding Provided	Capital Funding Used for Purposes Other Than Intended
$288,000 was provided by Government during 1997-98 to the Commission to purchase two specific pieces of property within the Park. Our review indicated:	$ 288,000	
▸ $230,000 of the $288,000 was transferred to the Commission's operating account for general operational purposes.		$ 230,000
▸ Approximately $50,000 of the $288,000 was used for various capital equipment acquisitions and Park improvements, and not for the acquisition of specific property within the Park as was intended by Government.		50,000
$100,000 in capital funding was provided by Government during 1999-00 for the specific purpose of constructing a field house at the 18 hole golf course. The field house consists of washrooms and a canteen operated by the Commission. $22,700 of the $100,000 was used for capital projects other than those intended, including $19,200 for the design and construction of a gate at the entrance to the golf courses and $3,500 for a dance floor at the golf course clubhouse.	100,000	22,700
$270,000 in capital funding was provided by Government during 2000-01 for renovations to the golf course clubhouse and for other external improvements to the golf course. $34,227 of the $270,000 was paid directly to TDC and used for other purposes such as $30,422 in salary expenses, $3,005 to cover TDC leasing costs for a shuttle cart, and $800 for nursery sods delivered to a privately operated driving range near the golf course.	270,000	34,227
Total	**$ 658,000**	**$ 336,927**

2. Controls over Capital Assets

We identified the following weaknesses in controls over capital assets as follows:

- the sub-ledger was not maintained on a current basis;
- no physical inventory counts have been conducted in recent years to determine whether all assets purchased are still in the possession of the Commission; and
- assets are not tagged or otherwise identified for comparison to information recorded in the sub-ledger, and available asset identifiers such as serial numbers are not always indicated in the sub-ledger.

3. Provision for Replacement of Capital Assets

The Commission has not developed a capital asset replacement plan. Given capital funding from Government has been reduced in recent years and no funds have been set aside by the Commission for capital equipment replacement, there is limited opportunity for the acquisition of necessary capital equipment. Due at least in part to the lack of available funding, the Commission has decided in recent years to lease assets as a means of replacing older equipment as the need arises. Examples of significant assets under lease include a car, backhoe, and lawn tractor/mower. The annual cost to the Commission in related lease payments is $21,600, with combined payments over the lease terms totalling approximately $104,000.

In the absence of an established capital asset replacement plan, the Commission cannot ensure that its assets are being monitored to determine whether the timing of asset replacement is optimized and that funding is available for replacement.

4. Clubhouse Renovations and Golf Course Improvements

During the fiscal year 2000-01, a total of $270,000 in funding was provided by Government to the Commission for planned renovations at the golf course clubhouse and for other external golf course improvements.

Admiral's Clubhouse

At the time of our review, total expenses for the project consisted of 21 charges to the project account totalling $269,816. Our review of these expenditures indicated the following:

- There was insufficient documentation at the Commission to support approximately $265,000 of the $269,816 spent on the clubhouse renovations in that there were no purchase orders or tenders. As a result, we could not determine how the various suppliers were selected and whether a fair and reasonable price was established. One supplier was paid in excess of $150,000 and, although we were informed by Commission officials that a public tender had been called, the Commission could not provide supporting documentation for the tender.

- $34,227 of the $269,816 was paid directly to TDC and did not relate to the renovations project. These payments included $30,422 in salary expenses, $3,005 to cover TDC leasing costs for a shuttle cart, and $800 for nursery sods delivered to a privately operated driving range near the golf course.

- Although a project consultant was engaged to administer the main renovations contract, several other expenditures were made during the project for which no approved plan existed. Commission officials indicated that many of the expenditure decisions were made as the project proceeded.

- Direct monitoring of project expenditures by the Commission consisted of informal documentation maintained by an official of the Commission as the official was made aware of them.

- Travel costs totalling $4,765 were paid although details such as specific dates for the trips and their duration were not contained in supporting documentation for the claims. As a result, it was not possible to determine the appropriateness of these expenditures.

Golf Course Management Agreement

On 20 November 1997, an agreement covering the management and operation of the two golf courses located within the Park was entered into between the Commission, TDC and the Minister of Works, Services and Transportation on behalf of the Province. Under the agreement, TDC is to manage and operate the golf courses for an initial term expiring 31 December 2004, with an option for an extended term after that date. The agreement contains provisions which specify: fees to be paid by TDC to the Commission; conditions under which the golf courses are to be operated; responsibilities with respect to expenses; and conditions under which the agreement may be terminated.

The following observations are made based on our review of the management agreement:

1. Assistance Provided to TDC

Instances were noted where financial assistance was provided to TDC which was not required under the management agreement. Much of this assistance represents a direct subsidy to TDC's operations. The assistance included:

- Short term, interest free, repayable advances of $10,000 made to TDC to cover start-up costs for each of the 1999 and 2000 golf seasons. Such advances were not approved by the Commission. In both instances, the funds advanced were refunded by TDC.

- An accountant contracted by the Commission was provided to TDC to maintain TDC's accounting records. Commission officials indicated the rationale was to pro-rate the salary and benefits of the accountant between TDC and the Commission based on the amount of work performed for each entity. Officials indicated that the staff member in recent years had been engaged full-time on work related to TDC although the Commission continues to pay approximately 36% of the salary and benefits.

- A special assistance grant of $45,000 was paid by Government, through the Commission, to TDC. We were informed by an official of the Commission that the funding was provided to TDC to assist it with ongoing cash flow problems and was not required to be reimbursed.

  The $45,000 was charged to the "Municipal Financial Assistance - Special Assistance" program in the Department of Municipal and Provincial Affairs. This funding is supposed to be used for the "....*payment of special assistance grants to municipalities.*" The provision of funding to assist a private company such as TDC with its cash flow problems is not an appropriate expenditure under this program. As a result, the Department of Municipal and Provincial Affairs contravened the *Financial Administration Act*.

- The golf course clubhouse was built and financed by TDC in 1998. Since the clubhouse was financed by TDC, it has been pledged as security for TDC's bank loan. As at the date of our audit, TDC owed the bank approximately $1.3 million. In 2000-01, the Commission spent $270,000 to make renovations on the clubhouse even though it is held as security for TDC's bank loan. Should TDC default on its loan at the bank, the bank would have first access to the clubhouse and other related assets.

- In March 2001 Government directed the Commission to waive the 2001 TDC fee of $250,000 owed to the Commission. In addition, the 31 March 2000 fee of $200,000 has not yet been received.

2. Compliance with the Golf Course Management Agreement

We identified several instances where the Management Agreement between TDC and the Government was not being complied with. For example:

- Although TDC is required to provide the Commission with quarterly financial reports, these reports have not been provided by TDC. The significance of this is increased because TDC is managing one of the most significant assets of the Commission and TDC has been recently experiencing financial problems. The Commission should be obtaining the quarterly reports and should be closely monitoring the situation.

- Under the agreement, TDC is required to comply with the *Public Tender Act* and is required to provide a statement with respect to its compliance with the Act. TDC has not provided this statement.

- The golf professional which TDC is required to maintain on staff during the golf season was not provided.

Recommendations

The Commission should review the activities of TDC as required by the Agreement between TDC and the Government to ensure compliance with the Agreement and closely monitor the financial position of TDC to identify and minimize the potential financial and operational impact on Government and the Commission.

The Commission should ensure that funds provided by Government are used for the purpose intended.

The Commission should ensure that payments made on special projects are adequately supported and are for the intended purpose.

The Commission should maintain adequate controls over its capital assets.

Commission's Response

The Commission is represented on the board of TDC and hence is kept appraised of the activities and financial position of TDC. The Commission's representative is authorized by the Commission to deal with the day-to-day matters of TDC and to only report back to the Commission in the eventuality of an unusual circumstance. Further to this point, the Commission's member on TDC is provided with a monthly financial statement.

The Commission is satisfied that the funds provided by Government were used for the purposes intended. During discussions leading up the issuances of the grants, various small scale improvements necessary for the hosting of the international golf tournament were discussed and approved. Documentation authorizing the provision of funding only mentioned the major project for administration ease. The additional expenditures noted in this report were made on the basis of savings from the original estimated cost of the major project. i.e. the field house.

The Commission does endeavour to ensure that payments made on special projects are adequately supported and that they are used for the intended purpose. Some documentation may be maintained at TDC's office dependent on the nature of the project. The Commission will ensure that copies of any future work are provided to the Commission.

The Commission has a very small inventory of capital assets. Files are maintained on all purchasing done by the Commission and can be readily accessed for inventory purposes. Nevertheless, we will endeavour to upgrade our sub ledger when the appropriate material is returned to the Commission.

With respect to the various comments made relating to various government departments, the Commission is in no position to influence their activities nor to comment on the statements made with respect to those activities. I would assume that any comment required would be provided by the respective departments.

Department of Municipal and Provincial Affairs Response

Since 1998-99 the Department's "Special Assistance Fund" has included funding, to be used at the discretion of the Minister, in order to fund special projects or initiatives. It has always been the Department's clear understanding that the use of these funds was not restricted to special projects or initiatives relating to Municipalities. The Department's detailed explanatory notes has always identified these funds separately from the funding provided for Municipalities. These detailed explanatory notes are provided to the Treasury Board Secretariat and the Auditor General. The notes are then used by the Department as the basis for making expenditures from its approved Budget.

The Department acknowledges that, while the detailed explanatory notes does separately identify the incremental funding for special projects and initiatives, the program note, as contained in the Estimates, was not amended to address the incremental funding by expanding the note to include payments to other entities. However, the program note for the 2002-03 Estimates has been expanded to provide for these payments.

3.15 Health and Post Secondary Education Tax

Introduction

The Health and Post Secondary Education Tax (Payroll Tax) was introduced on 1 August 1990 by the Provincial Government as a revenue generating measure. The Tax Administration Branch of the Department of Finance is responsible for the administration of Payroll Tax by ensuring that the *Health and Post Secondary Education Tax Act* (the Act) and its regulations, along with Departmental policies, are being complied with by companies with employees in Newfoundland and Labrador. The Act requires that all employers pay a 2% tax on the portion of remuneration paid to employees who report for work in the Province and which is in excess of a tax free exemption. This exemption is available to all companies registered under the Act, although associated companies must share one exemption. This exemption is periodically revised by amending the Act. The history of this exemption is provided in Figure 1.

Figure 1

Payroll Tax
Allowable Exemption Rates

Effective Date	Allowable Exemption
1 August 1990	$300,000
1 July 1992	$100,000
1 January 1998	$120,000
1 January 1999	$150,000
1 April 2000	$400,000
1 April 2001	$500,000

Source: Health and Post Secondary Education Tax Act

As of June 2001, there were approximately 1,800 registered employers, 1,600 of which had annual payroll in excess of the 2000-01 tax exemption of $400,000. Figure 2 provides information on employers by payroll threshold for 2000-01.

Figure 2

Payroll Tax by Sector
31 March 2001
($ Millions)

Amount of Payroll Tax Paid	Private Sector		Public Sector		Total Number of companies	Total Revenue
	Number of companies	Revenue	Number of companies	Revenue		
> $500,000	13	$12.5	15	$34.0	28	$46.5
$100,001 - $500,000	56	$10.3	16	$ 4.3	72	$14.6
$2,001 - $100,000	1,116	$17.2	47	$ 1.3	1,163	$18.5
$1 - $2,000	788	$ .5	17	$ -	805	$ .5
Sub-totals	1,973	$40.5	95	$39.6	2,068	$80.1
$0	401	$ -	4	$ -	405	$ -
Totals	2,374	$40.5	99	$39.6	2,473[1]	$80.1

Source: Tax Administration Management System

[1] Of the 2,473 companies in the Tax Administration Management System as of June 2001, 700 were terminated (691 private and 9 public), leaving a balance of 1,773 registered companies.

For the year ended 31 March 2001, Government received $80.1 million in Payroll Tax of which $30.4 million was received from Provincial Government departments and agencies and $9.2 million was received from other levels of Government. For the year 2001-02, the threshold has increased from $400,000 to $500,000. Based on the results at 31 March 2001, this change in threshold will result in the elimination of approximately 805 businesses and $500,000 in revenues. As a result, next year the various levels of Government will be paying a higher proportion of the total Payroll Tax than companies in the private sector. Figure 3 provides information on the source of the Payroll Tax for the year ended 31 March 2001.

Figure 3

Payroll Tax
Revenue by Source
31 March 2001
($ Millions)

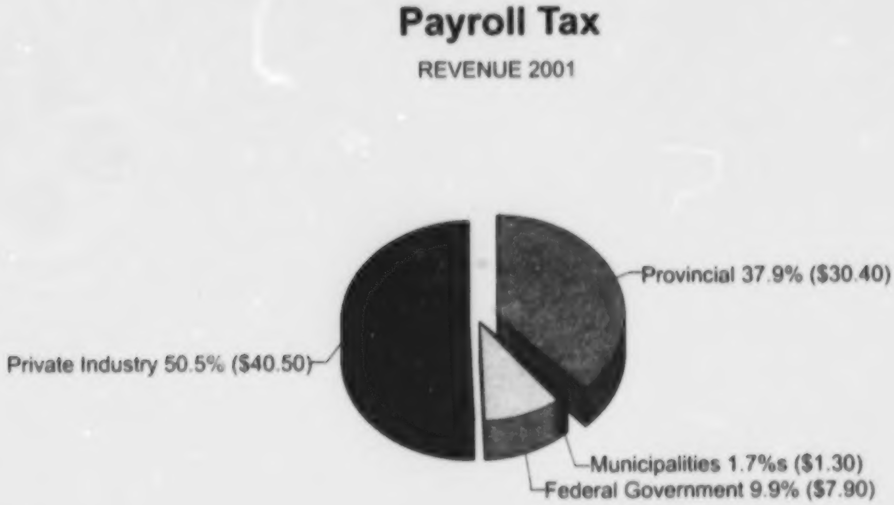

Figure 4 indicates the amount of Payroll Tax received in the past eight years compared to the amount budgeted. As the Figure indicates, Payroll Tax received each year exceeded the amounts budgeted.

Figure 4

Payroll Tax Revenue
31 March
($000's)

Year	Payroll Tax Budgeted	Actual Payroll Tax Received	Number of Companies Paying Payroll Tax	Number of Provincial Government Entities Paying Payroll Tax	Threshold
2001-2002	77,500	Not yet available			500,000
2000-2001	71,000	80,056	2,068	46	400,000
1999-2000	68,500	75,920	Not available	Not available	150,000
1998-1999	73,100	75,028	Not available	Not available	120,000
1997-1998	70,000	73,883	Not available	Not available	100,000
1996-1997	71,600	75,809	Not available	Not available	100,000
1995-1996	76,000	78,314	Not available	Not available	100,000
1994-1995	72,500	77,721	Not available	Not available	100,000

Source: Consolidated Revenue Fund and Tax Administration Management System, Department of Finance

Scope and Objectives

We completed our review of the Health and Post Secondary Education Tax (Payroll Tax) component of the Tax Administration Branch of the Department of Finance in August 2001. The objectives of our review were:

- to determine whether there are adequate systems and procedures in place to ensure all companies that should be paying tax have been identified and have paid the proper amount;

- to examine the receivable balance including a reconciliation of opening to closing for several years;

- to determine whether there are adequate systems and procedures in place to monitor collection activity;
- to assess the adequacy of the collection processes; and
- to identify applicable legislation and determine compliance.

Conclusions

Our review of the Payroll Tax indicated the following:

One of the most challenging issues facing the Department is how to determine whether all employers subject to this tax are registered. The Department relies mainly on voluntary compliance of employers to register themselves. The processes in place for the identification of unregistered employers is not adequate.

Although useful information is available from the Canada Customs and Revenue Agency that could be used to both identify unregistered employers and confirm the amount of Payroll Tax owing by employers, the Department has not used any of this data to confirm the amount of Payroll Tax owing by employers. The information has been used to identify unregistered employers. This comparison was completed for 1996, 1997, 1998 and 1999 and employers were identified as not being registered. However, a number of issues that were identified by using the data for all four years are still unresolved.

In January 2001, the Department of Finance advised remitters of payroll tax that the Minister had waived the requirement for an Annual Declaration in the 2000 taxation year (including the T4 and T4A Summary) as permitted by the *Act*. However, since the Department is not using information from the Canada Customs and Revenue Agency on a timely basis to verify the accuracy of payroll tax received from individual companies, the Annual Declaration and the accompanying T4 and T4A Summary would have provided some assurances as to whether companies had remitted the correct amount of Payroll Tax.

Employers that are below the exemption threshold are often terminated by the Department so they are no longer required to file monthly and annual returns. No one at the Department regularly reviews terminated employers to ensure that only those approved were terminated. Also, when employers are placed in this category, they are not considered for audit. In addition, the Department relies on these employers to re-register if their circumstances change.

The Department does not have an audit plan for Payroll Tax that would ensure employers are audited on a rational and cyclical basis.

At 31 March 2001, Payroll Tax receivables totalled $8.3 million of which $1.4 million had been outstanding in excess of 1 year. In addition, the Tax Administration System included $1 million in credit balances for which no refund had been made to employers.

Findings and Recommendations

Audit and Investigation Systems and Practices

Adequate systems and practices must exist to assist the Branch in ensuring that all relevant parties comply with applicable tax legislation. This includes the identification and registration of taxpayers, the monitoring of information returns submitted by taxpayers, and the performance of audits and investigations of taxpayers. Our review of these systems and practices disclosed the following:

1. Identification and Registration of Employers

The Department relies mainly on voluntary compliance of employers to register themselves. One of the most challenging issues facing the Department is how to determine whether all employers subject to this tax are registered. As of June 2001, there were approximately 1,800 registered employers.

In reviewing the Department's process to ensure these taxpayers are registered for purposes of Payroll Tax, the following issues were identified:

- The Canada Customs and Revenue Agency has agreed to provide the Province with payroll information that would assist in the identification of employers who were required to pay Payroll Tax. In early 2000, the Department obtained payroll information from the Canada Customs and Revenue Agency for the calendar year 1996 and compared this information to their own information. This comparison identified employers with payroll in excess of the exemption threshold that were not readily identified as registered to pay Payroll Tax. This comparison identified 476 employers that had reported employee remuneration to the Canada Customs and Revenue Agency in excess of $100,000 (exemption threshold for 1996) in 1996 but did not appear to be registered to pay Payroll Tax. The following is the current status of this process:

- 82 employers cannot be contacted since the Department does not have current addresses and/or telephone numbers to establish contact. The Department has indicated that the intent is to request more current information from the Canada Customs and Revenue Agency.

- 163 employers have been contacted. The Department has indicated that the intent is to carry out assessments for 1996, 1997, 1998 and 1999 based on the payroll information received from these companies. The results to date are as follows:

  - 113 employers have returned all required information to the Department. Of these 113 employers, 77 assessments have been done resulting in assessments totalling $631,309 in principal and interest. There are 7 taxpayers in the process of having an assessment completed, and the remaining 29 have been identified as having already been registered or are associated with a company that is already registered.

  - 50 have either not responded to the Department's request for information or have returned only a portion of the information requested. The disposition of these 50 accounts has not been resolved.

- 231 were found to be either registered in the Tax Administration System or had been registered but terminated prior to 1999 because they were no longer required to remit Payroll Tax.

The Canada Customs and Revenue Agency provides good information with which to audit Payroll Tax. Although the comparison performed on 1996 data has not been finalized, the Department has already performed the same comparison on 1997, 1998 and 1999 data. To date, the Department has identified the employers in the Canada Customs and Revenue Agency database that could not be readily matched to the Department's Tax Administration System. Departmental officials indicate that they are in the process of contacting these companies.

- When the Department converted its previous Payroll Tax database to the new system in 1999, employers designated as "terminated" and not liable for payment of Payroll Tax and not required to file returns, were not transferred to the new system. As a result, the Department's database does not include all employers within the Province. A complete database is necessary to administer the program and identify employers for monitoring and audit.

- Up to April 2000, the Department ceased issuing statements of account to any employer which had not exceeded the threshold and which requested that they no longer be sent these statements. This also exempts the employer from filing returns provided the employer indicated that it has payroll below the threshold, is no longer in business, or is remitting payroll information through an associated company. These employers remain in the Department's database and are required to inform the Department when their payroll has exceeded the threshold amount and become liable to pay Payroll Tax. The Department does not carry out any independent verification to support the request.

  In addition, since April 2000, when the allowable exemption was increased from $150,000 to $400,000, the Department has taken its own initiative to terminate the accounts of employers that are below the allowable exemption. Furthermore, any company that registers but has an estimated payroll below the current $500,000 threshold will automatically be omitted from receiving statements of account and the required filings. These employers also remain in the Department's database and are required to inform the Department when their payroll has exceeded the threshold amount and become liable to pay Payroll Tax. This initiative has resulted in the termination of approximately 2000 accounts.

  To determine whether only accounts that were either below the threshold or no longer in business had been terminated, we reviewed a sample of 63 accounts that had been terminated in the year 2000 with an estimated payroll exceeding $400,000. Our review disclosed two exceptions that were resolved through discussions with officials and which did not result in the loss of any tax revenue.

2. Monitoring of Information Returns

The Department must ensure that complete, accurate and timely information is provided by taxpayers not only to help limit the potential loss of tax revenue but to enable the Department to effectively capture and monitor significant information on taxpayers. This can assist in the identification, in a timely manner of potential problem areas that may require further investigation. In addition, by closely monitoring and following up on outstanding and incomplete information returns, the Department would demonstrate a visible effort of enforcing the tax legislation.

The *Health and Post-Secondary Education Tax Act* and *Regulations* requires employers to provide the following:

- a monthly return must be filed by the 20th day of the following month;
- an annual declaration of payroll must be filed by the last day of February in the year following the year to which the payroll information relates; and
- the annual declaration must be accompanied by the T4 and T4A Summary required by the Income Tax Act.

The monthly returns and the Annual Declaration along with the T4 and T4A Summary provide the information required to determine whether taxpayers are remitting the correct amount of Payroll Tax. In addition, information from the Canada Customs and Revenue Agency can also be used to determine whether taxpayers are remitting the correct amount of Payroll Tax.

The Department only requires a monthly return in the month that a company exceeds the threshold and every month thereafter for that calendar year. In addition, in January 2001, the Department of Finance advised remitters of Payroll Tax that the Minister had waived the requirement for an Annual Declaration in the 2000 taxation year (including the T4 and T4A Summary) as permitted by the *Act*. However, since the Department is not using information from the Canada Customs and Revenue Agency on a timely basis to verify the accuracy of Payroll Tax received from individual companies, the Annual Declaration and the accompanying T4 and T4A Summary would have provided some assurances as to whether companies had remitted the correct amount of Payroll Tax.

3. Audit Coverage

Audit activities are aimed at creating and encouraging compliance with tax legislation and demonstrating fair and consistent treatment of all employers. One of the primary enforcement activities is the performance of an audit. Payroll audits are normally performed at the Department using information obtained from the business being audited. The intent is to detect error or fraud and establish a basis for future compliance. Our review of audit activity relating to payroll taxes indicated the following:

- The Department does not audit any companies previously registered but which are currently not paying Payroll Tax to determine whether they should be paying this tax.

- There is no systematic process in place to ensure that all existing employers are considered for audit on a cyclical basis or to identify those employers that would be more vulnerable to error. Currently, Payroll Tax audits are initiated because of tips received, the registrant is being audited for another tax, a tax refund has been requested, or an account was identified as a non-registrant during a comparison to the Canada Revenue and Customs Agency database. Of the 2,473 taxpayers included in the Tax Administration Management System at June 2001, the system indicates that only 199 have had audits completed since October 1999. 128 of these audits were on taxpayers whose registration is now terminated.

- The Department is currently using the Canada Revenue and Customs Agency database to identify possible employers who should be registered. The Canada Revenue and Customs Agency database also provides the information needed to independently verify the payroll amount submitted by employers to the Department for calculation of Payroll Tax. Although this information has been available since 1992, it has not been used to identify Payroll Taxes owing.

- One of the Department's methods for selecting businesses for payroll tax audits is to conduct such audits in conjunction with retail sales tax audits, gasoline tax audits, and tobacco tax audits. There are approximately 1,800 registered companies for Payroll Tax. Not all of these companies are subject to retail sales tax, gasoline tax, or tobacco tax. As a result, using other taxes to select accounts for payroll audit does not provide a comprehensive selection method for selecting accounts for audit.

As a result, there is inadequate audit coverage.

Tax Collection Systems and Practices

Accounts Receivable for payroll taxes have increased in total from $6.7 million at 31 March 1995 to $8.3 million as of 31 March 2001, an increase of 24%. Details of the receivable balances are outlined in Figure 5. As at 31 March 2001, payroll tax receivable of $8.3 million is comprised of approximately $1.4 million which has been in arrears for more than one year. However, as shown in Figure 6, included in this balance is $6.5 million related to returns that were received subsequent to 31 March 2001 but were for tax due during 2000-01, thus leaving $1.8 million where the return was assessed but monies not received as at 31 March 2001. The $1.4 million in arrears is included in this $1.8 million.

Figure 5

Payroll Tax
Taxes Receivable
31 March
($ 000's)

Year	Taxes Receivable	Allowance for Doubtful Accounts	Net Taxes Receivable
2000-01	8,323	934	7,389
1999-00	8,775	767	8,008
1998-99	6,922	654	6,268
1997-98	7,118	523	6,595
1996-97	8,680	694	7,986
1995-96	7,106	568	6,538
1994-95	6,688	361	6,327

Source: Consolidated Revenue Fund

Figure 6

Payroll Tax Receivable
31 March 2001
($ Millions)

Aged	> 1 year	< 1 year	Total
2000-01 Returns Processed in April 2001	$ -	$6.5	**$6.5**
Receivable related to returns processed as of 31 March 2001	$1.4	$.4	**$1.8**
Receivable as per Public Accounts	**$1.4**	**$6.9**	**$8.3**
Credit Balances reported as payables	-	($1.0)	($1.0)
Net Receivable	**$1.4**	**$5.9**	**$7.3**

Source: Tax Administration Management System

Payroll Tax represents a significant amount of Provincial money and therefore, we reviewed the Department's tax collection system. Our review indicated the following:

- Guidance is provided to collection staff by a Departmental procedures manual, the Province's management manual and various Government directives. In general, the Departmental procedures manual provides guidance on specific actions that can be taken in collecting from delinquent taxpayers, ranging from a telephone call or letter to seizing and selling the assets of the delinquent taxpayer. However, this manual was implemented in 1989, before Payroll Tax was introduced in 1990 and long before the current system used to administer this tax was implemented in November 1999. As a result, this manual makes no specific reference to the collection of Payroll Tax and in fact the collection procedures make reference to a different tax administration system. Therefore, the Departmental procedures manual provides no specific guidance on the Tax Administration System as it relates to Payroll Tax.

- The current tax administration system was implemented in November 1999. At that time, the gross receivable balance relating to Payroll Tax was $1.3 million. After conversion to the new system, the $1.3 million was identified as being current. At 31 March 2001, any portion of this balance remaining outstanding would appear to be 17 months old even though it has probably been outstanding for much longer. Properly aged receivable listings would assist the Department in identifying old accounts requiring further investigation.

- There was approximately $1 million in credit balances in the Tax Administration Management System at 31 March 2001. This includes approximately 20 accounts that had in excess of $10,000 owing to them at 31 March 2001. All of these accounts have been in a credit balance in excess of 1 year. As per discussions with Departmental officials, refunds are only made at the request of the employer.

Recommendations

The Department should develop a process to more actively identify unregistered businesses which should be paying Payroll Tax to Government.

All terminated accounts should be reviewed to ensure that only those authorized have been terminated. In addition, all terminated companies should be contacted after an appropriate period to determine whether they are still exempt from paying Payroll Tax.

Tax Administration should develop an audit plan that would address the audit of all companies for compliance with Payroll Tax regulations on a cyclical basis.

All manuals used by the collection staff should be current and contain specific procedures related to Payroll Tax including information on the system in use.

The Department should review Payroll Tax credit balances in the Tax Administration System to determine whether refunds should be made to employers.

Department's Response

In the past, technical problems impaired the Department's ability to conduct electronic matching of files with the CCRA data base. Electronic matching of data was not always possible due to minor variations in names, spacing, typos, etc. Consequently, less effective, but adequate manual procedures were utilized to supplement the electronic matching of unregistered businesses. The design of the new Tax Administration Management System (TAMS), implemented in 1999, provides for the capturing of the federal Business Identification Number (BIN), allowing for a more efficient matching of files, and consequently a more efficient method of identifying unregistered businesses. The previous system did not provide the ability to capture the BIN.

As an internal control mechanism, procedures have been implemented to ensure accounts eligible for termination are reviewed by one employee, and approved by a supervisor. It is conceivable that an occasional error may have been made, but for the most part this system works extremely well.

Matching the TAMS data base with the CCRA employer data base provides the mechanism for review. Necessarily, there is a time lag between de-registration and the matching procedure, and the re-registration and audit.

I further note that it is the policy of the Tax Administration Division to terminate accounts only where payroll is at least $50,000 lower than the exemption threshold. For instance, if the exemption threshold was $150,000, employers with payroll between $100,000 to $150,000 would not have been terminated and would have received a tax return.

In the Department's opinion, the procedures are more than adequate, and the risk of revenue loss is minimal. The vast majority of these accounts would be around the periphery of the exemption threshold, and often, any tax liability would be small, and would not warrant immediate follow up. For example, an employer who had been de-registered in one year, and exceeds the exemption threshold by $10,000 in a subsequent year, and who failed to re-register and remit tax, would have a liability of $200. The cost of most follow-up audit and collection activities would exceed any revenue which would be generated, and would divert limited human resources from more productive activities.

The procedure of conducting post matching of data bases, and following up through correspondence and telephone enquiries is a more efficient use of resources than the labour intensive and more costly procedure of conducting field audits.

The Department does not have the human and financial resources to audit all companies for compliance with the Payroll Tax legislation on a cyclical basis. Further, the Department could not justify seeking additional resources to achieve 100% audit coverage. From the Department's perspective, it is more appropriate to develop an audit plan that makes efficient use of available audit resources by means of an audit selection process which prioritizes accounts based upon risk of revenue loss. The new system (TAMS) has enhanced the audit selection process. Further, since the RST has now been wound-up, greater priority can be given to payroll tax.

While the Department does not consider this to be a significant deficiency, it is agreed that procedures manuals require updating. The Department will undertake this activity, subject to other exigencies.

The review of Payroll Tax credit balances in the Tax Administration System has been ongoing since November 2001 and is expected to be completed early in 2002.

3.16 Pooled Pension Fund - Actuarial Valuations

Finding and Recommendation

The Province of Newfoundland and Labrador Pooled Pension Fund was created 1 July 1980 under the authority of the *Pensions Funding Act* for the purpose of providing for the funding of pension plans sponsored by the Province. These plans include the Members of the House of Assembly Pension Plan, the Uniformed Services Pension Plan, the Teachers' Pension Plan and the Public Service Pension Plan. The affairs of the Fund are managed by the Pension Investment Committee, with the Minister of Finance as Trustee of the Fund.

Section 5 of the *Pension Benefits Act Regulations* requires the administrator of a pension plan to have the plan reviewed at intervals not exceeding three years and to file the resulting actuarial reports with the superintendent not later than 9 months after the review date. The latest valuation dates for the pension plans and the due dates for the next required valuation reviews and actuarial reports are as follows:

Plan	Latest Valuation Date	Required Valuation Date
MHA	31 December 1996	31 December 1999
Uniformed Services	1 January 1997	1 January 2000
Teachers'	31 August 2000	31 August 2000
Public Service	31 December 1997	31 December 2000

The actuarial report for the Teachers' Pension Plan, while completed in October of 2001, was not filed with the Superintendent until 9 January 2002. The required valuation reviews for the Members of the House of Assembly Pension Plan, the Uniformed Services Pension Plan, and the Public Service Pension Plan are still not completed as of 9 January 2002. As a result, the Pension Committee has not complied with the requirements of the *Regulations* with respect to any of the Province's pension plans.

Recommendation

Actuarial reviews for all the pension plans should be completed in accordance with the requirements of the Pension Benefits Act Regulations.

Committee's Response

The valuations of the Public Service Pension Plan and the Uniformed Services Pension Plan were delayed as a result of the implementation of a new pension administration system in 1999. Conversion of the data from the old system took longer than anticipated and priority was given to timely reporting of employee benefit statements and required reporting for Income Tax purposes. This also impacted on the timely preparation of the MHA Actuarial Report. In future, the reports will be prepared on a more timely basis, as required by the Pension Benefits Act.

The following is the current status of the actuarial reporting for the plans:

MHA Pension Plan: *The Actuarial Report of the Members of the House of Assembly Pension Plan as of December 31, 2000 is substantially complete and should be submitted by the Actuaries by the end of January.*

Uniformed Services Pension Plan: *The preliminary valuation of the Uniformed Services Pension Plan as of December 31, 2000 has been completed and the final Report is being prepared by the Province's Actuaries.*

Public Service Pension Plan: *The relevant data as of December 31, 2000 has been forwarded to the Actuaries and the valuation process is underway, with a report expected by mid April.*

Teachers' Pension Plan: *As indicated in your report, the Actuarial Report for the Teachers' Pension Plan as of August 31, 2000 has been completed and submitted to the Superintendent of Pensions.*

3.17 Aquaculture Program

Introduction

The Department of Fisheries and Aquaculture has a primary mandate to promote the ongoing development of marine fisheries and the aquaculture industry. Policies and programs have been developed to support this mandate in harvesting, processing and marketing.

I have previously reported on Government's assistance to SCB Fisheries Limited in my 1998 and 1999 Annual Reports to the House of Assembly.

Scope and Objectives

The purpose of this report is conclude my review of Government's involvement with SCB Fisheries Limited which ended in June 2001.

Conclusions

Government's involvement with SCB Fisheries Limited commenced in 1992 and was completed in June 2001. During that period SCB Fisheries Limited cost Government a total of $9.7 million as follows:

- **$2.8 million balance of loan provided by Enterprise Newfoundland and Labrador Corporation;**
- **$6.5 million loan guarantee payout; and**
- **$400,000 out of court settlement.**

Government will not recover any of this money.

Detailed Findings

Background Information Relating to Government Involvement

During the 1990's, SCB Fisheries Limited, a private corporation, had significantly expanded its operations. The company operated seven licensed marine growout sites with almost all service requirements being developed internally. Operations included a hatchery, processing plant, feed delivery, and diving services.

In 1992 Enterprise Newfoundland and Labrador Corporation provided a loan to SCB Fisheries Limited, the balance of which was $2.8 million as at 31 March 2001.

In 1997 the company approached Government seeking financial assistance in the form of a loan guarantee. In September 1997, Government provided SCB Fisheries Limited with a loan guarantee of $2.6 million.

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As a condition for providing the loan guarantee, the Department assumed management responsibility of the company, appointed an Assistant Deputy Minister as interim general manager, and placed two representatives on the company's Board of Directors. Figure 1 outlines the history of Government's loan guarantee limits for the company:

Figure 1

Loan Guarantee Limits
SCB Fisheries Limited

Agreement Date	Amount
September 1997	$2.6 million
October 1997	$4.0 million
March 1998	$5.0 million
August 1998	$6.0 million
October 1998	$6.7 million

In 1998, I reported on Government's exposure to increasing financial losses as a result of loans and loan guarantees provided to SCB Fisheries Limited.

By 31 March 2001, the Province had provided a total of approximately $9.3 million in assistance to the company, relating to a $6.5 million payout on the loan guarantee and the $2.8 million loan from the Enterprise Newfoundland and Labrador Corporation. In addition, the Federal Government through the Atlantic Canada Opportunities Agency, had provided at least $3.5 million, including $2.4 million in repayable contributions and loans and $1.1 million in grants.

Despite the infusion of this funding, the company's financial position deteriorated significantly, to the point where it was considered unlikely that Government would recover any of the $9.3 million.

Divestiture Efforts

In July 1998, Cabinet directed the Minister of Fisheries and Aquaculture, in consultation with the Minister of Finance, to report back to Cabinet with a plan to include restructuring the company's finances, eliminating Government's involvement in the aquaculture operations carried out by the company, and facilitating the sale of the operation to an operator with experience in the industry and the means to undertake further needed investments.

In October 1998, Cabinet struck a committee of Ministers to evaluate proposals for the divestiture of the company. These proposals had been invited during the summer of 1998, based on a Divestiture Information Package dated 31 July 1998.

The Divestiture Information Package was distributed to 11 companies. Of these 11 companies, only 2 responded with offers. Neither of these divestiture offers were accepted by the licensee or Government.

On 2 March 1999, Cabinet directed that the administration and control of the company be transferred back to its shareholders, subject to the Minister of Fisheries and Aquaculture and the Minister of Finance agreeing on the terms and conditions of the transfer.

On 3 March 1999, the Minister of Fisheries and Aquaculture proposed to the company that management would be transferred back to the company and arrangements would be made to write off the loan balance with the Enterprise Newfoundland and Labrador Corporation of approximately $2.8 million, and release the Province's security on company assets, as well as personal guarantees totalling $225,000. In return the company had to meet certain conditions such as hiring a new General Manager, finding a new investor and submitting a viable business plan.

On 30 March 1999, Government paid $5 million of the $6.5 million loan guarantee to the company's bank although not all of the specified conditions were met. The remaining $1.5 million was paid out in December 1999.

On 31 July 2000 the Department of Fisheries and Aquaculture was informed that an agreement had been reached between the private shareholders and a private company to acquire SCB Fisheries Limited. The anticipated closing date was 31 December 2000.

In January 2001, Cabinet approved the following:

- transferring Government's receivables from SCB Fisheries Limited to the new company; and
- assignment of all security, including the release of personal guarantees, held by the Province in SCB Fisheries Limited to the new company.

Cabinet approval also directed that the Crown corporation, Newfoundland and Labrador Industrial Development Corporation (NIDC), provide $400,000 to settle a lawsuit against the Province stemming from its involvement with SCB Fisheries Limited.

The sale of SCB Fisheries Limited to the private company was completed by June 2001.

Government Loan Security

The Province did not realize on any of the security it had on the assets of SCB Fisheries Limited nor did it realize on the guarantees provided by two of the shareholders of SCB Fisheries Limited.

Although Government initially had security in place for the loans and loan guarantees to the company, the security was relinquished over the time Government maintained its investment in SCB Fisheries Limited. Details are as follows:

- In October 1996, the Enterprise Newfoundland and Labrador Corporation entered into an agreement with the company and its feed supplier which subordinated the Corporation's security over inventory and accounts receivable, to debt the company had incurred with the feed supplier.
- In December 1997, two of the company's shareholders signed agreements whereby each would guarantee $112,500 of Government's loan guarantee in the company. These guarantees were never realized.
- On 11 August 1998, Government entered into an agreement with the company's feed supplier to subordinate Government's loan guarantee security, consisting of a first charge on all inventory, including fish and feed inventory, in order to prevent the feed supplier from enforcing its claims on the company. At the time, these claims amounted to approximately $3.5 million. The

original security for the loan guarantees was provided in September 1997, when the Province and the company signed an agreement which gave the Province mortgage security on the company's assets.

- On 23 August 1999, Government entered into a further agreement to subordinate its security over the company's fish inventory to enable the company to use it as security for another feed supplier.

- Government relinquished all remaining security in SCB Fisheries Limited during 2001.

Other Matters

As outlined in my 1999 Annual Report item, in June 1998, SCB Fisheries Limited was advised that certain transactions between it and another related company "*...feature prominently*" in a bankruptcy petition against the other related company. In September 2000 a Statement of Claim was filed by a feed supply company, against SCB Fisheries Limited, Enterprise Newfoundland and Labrador Corporation, and the former Department of Development and Rural Renewal. In December 2000 the Department of Finance on behalf of the Province agreed to an out of court settlement for $400,000. The settlement amount of $400,000 was paid by another Crown agency, the Newfoundland and Labrador Industrial Development Corporation (NIDC).

In summary, Government's involvement with SCB Fisheries Limited cost $9.7 million as follows:

- $2.8 million balance of loan provided by Enterprise Newfoundland and Labrador Corporation;

- $6.5 million loan guarantee payout; and

- $400,000 out of court settlement.

Department's Response

The conditions for the sale of SCB Fisheries Limited, as approved by Cabinet and outlined in a letter dated March 3, 1999 to SCB Fisheries Limited, have been met. The loans due to the Province and Enterprise Newfoundland and Labrador have been dealt with, as directed by Government.

The new operators of the assets of the former SCB Fisheries Limited, North Atlantic Sea Farms Corporation, have made significant investment important to operation and marketing and are operating successfully. In this regard we believe Government's actions on this issue has resulted in a positive, stable operation now in place in the Bay d'Espoir salmonid aquaculture industry. The Department continues to maintain the Business Plan.

3.18 Agriculture Safety Nets

Introduction

The Department of Forest Resources and Agrifoods is responsible for the management and development of the forestry, wildlife and agrifoods sectors. One of the divisions within the Department's Agrifoods Development Branch is Farm Business and Evaluation.

The Farm Business and Evaluation Division provides financial and management services for the development of the agricultural industry in the Province. It delivers farm management counselling and training programs, crop and livestock income insurance and other agriculture safety net programs, and other development assistance. During 2001, the Division's offices were moved to the Province's west coast as part of Government's efforts to regionalize services.

Figure 1 shows the expenditures for the Farm Business and Evaluation Division for the past two years.

Figure 1

Farm Business and Evaluation Division
Expenditures
Years Ended 31 March
(000's)

Activity	31 March 2000	31 March 2001
Agriculture Safety Nets	**$ 2,759**	**$ 2,555**
Administration and Support Services	270	304
Crop and Livestock Insurance	224	199
Farm Business Management Initiative	131	204
Agriculture Income Disaster Assistance	-	220
Total Program Expenditures	**$ 3,384**	**$ 3,482**

Source: Public Accounts

The largest expenditure in the Farm Business and Evaluation Division is in the Agriculture Safety Nets (ASN) activity. ASN is a 60/40 Federal and Provincial cost shared initiative which began in 1996 and which is intended to enhance long-term stability for the provincial agriculture industry. The original agreements expired in 2000, with a second set covering the 2000 to 2003 period. Expenditures are made by the Province with related revenue being recovered from the Federal Government for its share.

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The majority of funding under ASN relates to the Agri-Food Innovation Program (e.g. for 2001, $2.3 million of the total $2.6 million for ASN related to the Innovation Program and for 2000, $2.7 million of the total $2.8 million was for this Program). Activities under this Program are designed to address research, development, marketing, value-added and diversification needs and to promote long-term stability of the agriculture and agrifoods sectors. Incentives are provided to producer organizations, farms and other agrifood businesses to invest in diversification and value added projects, enhance their marketing efforts and improve their human resources. Funding is available through three separate application processes for industry diversification, human resource development, and market development.

This report focuses on expenditures under the Agri-Food Innovation Program which totalled $5.0 million over the two years ended 31 March 2001. Applicants apply for funding under one of the three initiatives in the Program. The applications are sent to the ASN Management Committee and are evaluated in terms of the description of the Program, and are approved, rejected or returned for additional information. Approved applicants are forwarded a letter of offer containing conditions of approval. Once the client provides evidence that approved expenditures have been made, the validated spending is reimbursed from the approved funds.

Scope and Objectives

We completed our review of the Agri-Food Innovation Program in June 2001. Our review covered the period from 1 April 1999 to 31 March 2001 and included an examination of the background, agreements and policies for the Agriculture Safety Nets Program.

The objectives of our review were to determine whether:

- there was compliance with the requirements of the agreements, as signed by the Provincial and Federal Governments, and related policies;
- there was adequate monitoring of funded projects and reporting on the results of Program activities; and
- the objectives of the Program were met.

A sample of Program applications was selected to assess the adequacy of documentation in relation to the intent of the Program, and to assess compliance with the process established by the Department for funding approval. We also assessed whether expenditures for funded applicants were supported by invoices as required, and whether inspections and other monitoring processes established by the Department were being complied with. In addition, a general review of expenditures charged to the ASN activity was conducted.

Conclusions

Information obtained at the Department of Forest Resources and Agrifoods indicated that priority for funding under the Agri-Food Innovation Program was to be directed to individual agricultural producers in the Province. Our review disclosed that approved projects have not been restricted to activities which provide funding directly to producers, but in many cases were used by the Department to fund Departmental activities or to fund non-producers such as operational funding for agriculture related provincial organizations. For example, in both years reviewed, more than 50% of project funding was used for Government sponsored projects with a further 10% used for non-producers. This results in less than 40% of funding being available directly to producers.

The average expenditure for funded projects in the three applicant categories varied significantly. The average payment per project to individual producers in 2000-01 was $6,000 compared to $26,000 for Government and $13,000 for non-producers.

The Department contravened the *Financial Administration Act* by purchasing four vehicles for divisions which did not have the funding to do so. Payments for these vehicles were inappropriately charged to the ASN activity.

Our review identified numerous instances where the Department did not comply with the Federal/Provincial Agreement and their own policies in the approval of projects, the payment of funds and the monitoring of projects. For example, many projects were funded without being approved by the Management Committee. As well, projects were identified which were questionable as to their eligibility for Program funding. As a result, controls over expenditures were not adequate.

3.18 Agriculture Safety Nets

Reasons provided for rejection or deferral of applications for funding included references to limited funding being available to provide the assistance requested. Other reasons included the fact that previous contributions had been made to the applicant. This reasoning is in contrast to the actions taken later by the Department in transferring available funding from ASN for use for other Departmental activities and through charging expenditures for other Divisions directly to the ASN activity. There was no indication that applications for funding which had been rejected or deferred earlier due to lack of available Program funding, were reassessed prior to these transfers being made.

The Department does not prepare an annual report relating to ASN activities. While the Department has developed a database of approved projects, the information maintained in this database does not provide evaluative information on the degree of success of the Program in relation to its objectives.

Findings and Recommendations

Nature and Objectives of Initiatives

ASN is a 60/40 Federal and Provincial cost shared initiative which began in 1996 and which is intended to enhance long-term stability for the provincial agriculture industry. The original agreements expired in 2000, with a second set covering the 2000 to 2003 period. Expenditures are made by the Province with related revenue being recovered from the Federal Government for its share.

The majority of funding under ASN relates to the Agri-Food Innovation Program. The purpose of this Program is to provide financial assistance for the development of primary and value-added agricultural sectors in the Province, including research, market development, organizational development and infrastructure needs of the agrifoods industry.

Funding is available through three separate application processes for industry diversification, human resource development, and market development. The maximum funding per project for 1999-2000 was $50,000 (2000-2001 $30,000), over a three year period. This can be used in the first year at the discretion of the Management Committee.

Information obtained at the Department of Forest Resources and Agrifoods indicated that priority for funding under the Program was to be directed to individual agricultural producers in the Province. This information included Program agreements, the Department's website, Program application forms, and minutes of the Management Committee.

A sample of Program applications was selected to assess the adequacy of documentation in relation to the intent of the Program, and to assess compliance with the process established by the Department for funding approval. We also assessed whether expenditures for funded applicants were supported by invoices as required, and whether inspections and other monitoring processes established by the Department were being complied with. In addition, a general review of expenditures charged to the ASN activity was conducted.

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The Department contravened the *Financial Administration Act* by purchasing four vehicles for divisions which did not have the funding to do so. Payments for these vehicles were inappropriately charged to the ASN activity.

Our review identified numerous instances where the Department did not comply with the Federal/Provincial Agreement and their own policies in the approval of projects, the payment of funds and the monitoring of projects. For example, many projects were funded without being approved by the Management Committee. As well, projects were identified which were questionable as to their eligibility for Program funding. As a result, controls over expenditures were not adequate.

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Findings and Recommendations

Nature and Objectives of Initiatives

ASN is a 60/40 Federal and Provincial cost shared initiative which began in 1996 and which is intended to enhance long-term stability for the provincial agriculture industry. The original agreements expired in 2000, with a second set covering the 2000 to 2003 period. Expenditures are made by the Province with related revenue being recovered from the Federal Government for its share.

The majority of funding under ASN relates to the Agri-Food Innovation Program. The purpose of this Program is to provide financial assistance for the development of primary and value-added agricultural sectors in the Province, including research, market development, organizational development and infrastructure needs of the agrifoods industry.

Funding is available through three separate application processes for industry diversification, human resource development, and market development. The maximum funding per project for 1999-2000 was $50,000 (2000-2001 $30,000), over a three year period. This can be used in the first year at the discretion of the Management Committee.

Information obtained at the Department of Forest Resources and Agrifoods indicated that priority for funding under the Program was to be directed to individual agricultural producers in the Province. This information included Program agreements, the Department's website, Program application forms, and minutes of the Management Committee.

Our review disclosed that approved projects have not been restricted to activities which provide funding directly to producers, but in many cases were used by the Department to fund Departmental activities or to fund non-producers, such as operational funding for agriculture related provincial organizations. Much of the funding provided to Government and some of the non-producers exceeded the dollar limits established for producers. Details as to how the funds were spent are outlined in Figure 2.

Figure 2

Department of Forest Resources and Agrifoods
Agricultural Safety Nets Expenditure on the Agri-Food Innovation Program
Years Ended 31 March
$ Millions

	Producers	Government	Other	Total
Expenditures 1999-00	$ 0.9 (180 Projects)	$ 1.6 (18 Projects)	$ 0.2 (16 Projects)	$ 2.7
Percentage	33%	60%	7%	100%
Expenditures 2000-01	$0.9 (151 Projects)	$ 1.1 (44 Projects)	$0.3 (20 Projects)	$ 2.3
Percentage	39%	48%	13%	100%

Figure 2 outlines the following concerns:

- For 2000-01 and 1999-00, more than 60% of the money spent went to Government and non-producers.
- For 2000-01, the average payment per funded project to individual producers was $6,000 (2000 - $5,000) compared to $26,000 for Government (2000 - $88,000) and $13,000 for non-producers (2000 - $12,000).
- A significant number of Government projects received more in one year than was set as the maximum limit (i.e. $30,000 for 2000-01 and $50,000 for 1999-00) for producers over a three year period.

Parameters for Initiatives and Roles/Responsibility of Provincial and Federal Partners

The Management Committee, which includes both Federal and Provincial representatives, has the responsibility for assessing each application based on the completed application form and on previous experience with the applicant. Approvals, rejections and requests for further information are documented in the minutes of Management Committee meetings.

Our review disclosed the above process is used primarily for funding producer projects and not for Government sponsored and Other projects. As a result, there is a lack of defined criteria and standard application process for funding Government sponsored and Other projects under the ASN activity.

Authorities, Policies and Procedures and Related Compliance

1. Authorities, Policies and Procedures

When a project has been approved by the Management Committee, a Project Authority form is completed and signed by both Federal and Provincial members. This Project Authority represents consent for project funding.

A Letter of Offer is prepared for approved projects, outlining the initiative the funding relates to, the amount of funding allowed, date of eligibility and termination, and conditions that have to be met for funding the particular project. For some projects, an attached schedule detailing how the funds are to be spent is also included. The Letter of Offer is signed by the applicant and returned to the Department as an acceptance of the conditions.

Funds are forwarded to the applicant when support for approved project expenditures is received and compliance with applicable conditions has been determined.

At the completion of the approved project, inspection forms are to be completed to ensure the monies have been spent as agreed in the Letter of Offer. As well, most applicants are to submit a report to the Management Committee outlining project results.

2. Compliance with Authorities, Policies and Procedures

We examined a sample of applicant files over the two fiscal years 1999-2000 and 2000-2001 to determine whether the required process had been followed. A total of 58 applicant samples or 29 from each fiscal year, were chosen from a total of 515 approved projects. Of these 58 samples, 20 were producers, 28 were Government, and 10 were Other (i.e. consisting of societies, councils, and co-operatives). The total approved project funding for the 58 samples was $ 2.8 million, which represents 43% of the total amount approved. A summary of our findings is disclosed in Figure 3.

Figure 3

Department of Forest Resources and Agrifoods
Testing Results

Process	Producers	Government	Other
Application and Approval			
Project never approved by the Management Committee	2 of 20	18 of 28	5 of 10
Applicant financial information not present	4 of 20	10 of 28	7 of 10
Applicant notified by letter of offer that the project was approved before the project was actually approved by both Governments	10 of 20	14 of 28	6 of 10
Payments made to applicant prior to approval by both Governments	6 of 20	10 of 28	5 of 10
No Letter of Offer outlining terms and conditions of funding	0 of 20	4 of 28	1 of 10
Monitoring			
No documentation in file showing that terms and conditions were met	19 of 20	23 of 28	9 of 10
Required project report from applicant not received	1 of 20	6 of 28	4 of 10
No final inspection certificates prepared by the Department	6 of 20	26 of 28	8 of 10
Other Non-compliance Issues			
Expenditures made after approved project termination date	2 of 20	1 of 28	1 of 10
Expenditure documentation missing from file	3 of 20	12 of 28	2 of 10

As Figure 3 indicates, our review identified numerous instances where the Department did not comply with the Federal/Provincial Agreement and their own policies. As a result, controls over expenditures totalling $5.0 million were not adequate

Furthermore, our review of the 58 sample items identified approved projects which were questionable as to their eligibility for ASN funds. The majority of these related to Government and Other projects. Details of some of these projects are outlined in Figure 4.

Figure 4

Department of Forest Resources and Agrifoods
Projects with Questionable use of ASN Funds

Nature of Project	Questionable Nature of Project
Producer	
Wool Mat Producer - $19,000	Project represents marketing of a craft by a non-producer rather than a value added proposal from a primary resource based agricultural producer. Fit under Program was questioned by departmental staff with suggested fit being more appropriate to the Craft Development Division of the then Department of Development and Rural Renewal. Application was rejected by the Management Committee but the Director authorized payment.
Government	
Audio/visual equipment to be used by the Department in presentations - $7,400	The purchase of equipment for use by the Department will not provide an identifiable benefit for the development of primary and value-added agricultural sectors in the Province. These expenditures would also not meet the requirements for reasonable out of pocket administrative expenses eligible under the Program Agreement.

Figure 4 (cont'd)

Nature of Project	Questionable Nature of Project
Other	
Newfoundland and Labrador Horticultural Council. - $77,500 over 2 years.	Funding is for ongoing operational costs for the Council. Long- term funding is excluded from the principles contained in the Canada-Newfoundland and Labrador Agri-Food Innovation Agreement. The Department has recognized a dependency by the Council on ASN funds and has determined the need to address this dependency.
Newfoundland and Labrador Livestock Council - $40,000	Funding is for ongoing operational costs for the Council. Long- term funding is excluded from the principles contained in the Canada-Newfoundland and Labrador Agri-Food Innovation Agreement. The Department has recognized a dependency by the Council on ASN funds and has determined the need to address this dependency.

Contravention of the *Financial Administration Act*

Two vehicles costing $19,200 each were charged to the ASN Program in January 2000. Documentation indicated that one vehicle was purchased for the Extension Services Division of the Department of Forest Resources and Agrifoods while the other vehicle was purchased for the Production and Marketing Division. These divisions are separate from the ASN Program to which the vehicles were charged. The 1999-2000 Estimates only provided each Division with approximately $4,000 for property, furnishings and equipment. As a result, the Department contravened the *Financial Administration Act* by purchasing vehicles for Divisions which did not have the funding to do so.

Two additional vehicles, costing $30,650 and $24,247 respectively, were purchased for the Animal Health Division of the Department in January and March 2001. This Division is separate from the ASN Program to which the vehicles were charged and the 2000-01 Estimates did not provide any funding for property, furnishings and equipment for the Animal Health Division. As a result, the Department contravened the *Financial Administration Act* by purchasing vehicles for Divisions which did not have the funding to do so.

Rejected or Deferred Applications

Reasons provided for rejection or deferral of applications for funding included references to limited funding being available to provide the assistance requested. Other references included the fact that previous contributions had been made to the applicant.This reasoning is in contrast to the actions taken by the Department. These included the following:

- As indicated previously, funding was not restricted to producers. In fact, in excess of 60% of the funding was provided for Government and Other projects.
- Items were purchased for other Departmental programs but were charged to the ASN Program.

In addition, during 2000-01 a total of over $500,000 was transferred from this Program to fund other Departmental programs. There was no indication that applications for funding which had been rejected or deferred earlier due to lack of available Program funding, were reassessed prior to these transfers being made. Amounts transferred from the ASN Program included those outlined in Figure 5.

Figure 5

Transfers From the ASN Program
31 March 2001

Date	Transfer Amount	Transferred To	Reason for Savings
25 January 2001	$170,000	Administrative support - travel	delayed up-take by farming community
9 February 2001	$70,000	Various activities - salaries	fewer projects proceeded than anticipated
19 February 2001	$29,000	Minister's office - various account objects	reduced up-take by farmers
21 February 2001	$30,000	Minister's office - salaries	delayed up-take by farming community
27 February 2001	$12,000	Minister's office - transportation and communication	delayed up-take by farming community
5 March 2001	$60,000	Operations and implementation - employee benefits	up-take less than budgeted
9 March 2001	$60,000	Executive, and Extension services - Salaries	delayed up-take by farming community
26 March 2001	$35,000	General administration - professional services	delayed up-take by the farming community
30 March 2001	$50,000	Executive support - transportation and communications	delayed up-take by the farming community

Monitoring and Reporting Processes

The Canada-Newfoundland and Labrador Agri-Food Innovation Agreement requires the preparation of a Business Plan to be updated annually and for initiating other reports, systems and procedures as required to implement the Agreement. Our review disclosed that a strategy was developed in 1997 which the Management Committee considers to be its business plan; however, this strategy has not been updated annually as required under the Agreement. As well, no annual reports have been prepared relating to ASN activities.

The Agreement also requires the Province to complete an evaluation of the Agri-Food Innovation Program by the end of the Agreement. While the Department has developed a database of approved projects, the information maintained in this database is primarily of a financial nature and would not serve in itself to provide evaluative information on the degree of success of the Program in relation to its objectives.

Our review also disclosed that project reports are not always received from applicants at the completion of approved projects. Such reports could be used by the Department to determine and demonstrate the adequacy of the ASN Program in addressing the long term needs of producers.

Recommendations

The Department should review the delivery of the ASN Program to determine the appropriateness of expenditure decisions made.

The Department should address the need to report on the ASN Program to provide evaluative information on the degree of success of the Program in relation to its objectives, and to demonstrate its adequacy in meeting the long term needs of producers.

The Financial Administration Act *should be complied with.*

3.19 Fire Suppression and Communications Expenditures

Introduction

The Department of Forest Resources and Agrifoods is responsible for the management of all forest and agricultural activities of the Province. In each of the past three years the Department's expenditures has exceeded those originally budgeted. In total the Department's gross expenditure of $138.4 million for these three years exceeded its original budget of $127.2 million by $11.2 million. Figure 1 provides comparative information for the fiscal years ended 1999 to 2001.

Figure 1

Department of Forest Resources and Agrifoods
Gross Expenditure
For the Years Ended 31 March
($ Millions)

Year	Actual Expenditures	Budget		Original Budget Compared to Actual Expenditures
		Amended	Original	
1999	$ 45.5	$ 46.2	$ 43.1	$ 2.4
2000	48.7	48.8	42.3	6.4
2001	44.2	44.7	41.8	2.4
	$ 138.4	$ 139.7	$ 127.2	$ 11.2

Source: Public Accounts and Estimates.

For the fiscal years 1999 to 2001, cost overruns in the Fire Suppression and Communications program was the major factor in the Department's increased expenditure. From 1999 to 2001, the Fire Suppression and Communications program accounted for approximately $9.3 million of the $11.2 million increase in expenditures over the original estimates.

Scope and Objectives

We completed our review in November 2001 of the Department's statement of expenditure and related revenue, and more specifically those of the Fire Suppression and Communications program. The objectives of our review were to determine whether:

- proper authority was provided for increases to the original estimates;
- expenditures were incurred within approved amended estimates; and
- expenditures recorded under Fire Suppression and Communications program were legitimate fire suppression and communications expenditures.

Conclusion

Increases in the Fire Suppression and Communications program expenditures accounted for approximately $9.3 million or 83% of the Department's cost overruns from 1999 to 2001.

Our review indicated that $565,000 or 63% of the supplies expenditure of $895,000 was made from December 2000 to March 2001, after the normal fire season from mid-April to mid-September. Some of this money was used to buy items such as ATVs, boats, motors, and trailers during the latter part of March 2001 which is the last month of the fiscal year. It is questionable whether such expenditures could be regarded as emergency fire suppression costs for 2000-01.

The Department contravened the *Financial Administration Act* by purchasing equipment from funds provided by the Legislature for supplies.

The Department contravened the *Financial Administration Act* by purchasing equipment for wildlife compliance from funds provided by the Legislature for supplies for the Fire Suppression and Communications program.

Findings and Recommendations

Funds under the Fire Suppression and Communications program are to be used to prevent, detect and suppress fires, provide maintenance of all communications and fire detection equipment, and provide maintenance and replacement of fire suppression equipment in the Province.

On 7 November 2000, the Lieutenant-Governor in Council approved the transfer of $1.22 million from the Province's Contingency Reserve to the Department's Fire Suppression and Communications program "*to cover emergency fire suppression cost overruns in 2000/2001*". In addition to this transfer, funds totalling $293,000 were also reallocated within the Department to cover additional cost overruns. Figure 2 provides a summary of the Department's increases to its original estimates for the Fire Suppression and Communications program.

Figure 2

Department of Forest Resources and Agrifoods
Fire Suppression & Communications Expenditures
For the Year Ended 31 March 2001

Categories	Original Budget	Transfers from Contingency Reserve	Inter-Department Transfers	Revised Budget	Actual Expenditures
Salaries	$ 1,111,300	$ 345,000	$ (36,700)	$ 1,419,600	$ 1,419,502
Employee Benefits	-	-	52,400	52,400	52,296
Transportation & Communications	501,600	400,000	(96,800)	804,800	793,076
Supplies	185,900	445,000	296,200	927,100	894,939
Professional Services	-	-	2,500	2,500	2,135
Purchased Services	78,200	-	(35,000)	43,200	-
Property, Furnishings & Equipment	6,900	30,000	85,400	122,300	115,760
Information Technology	-	-	25,000	25,000	24,989
Totals	$ 1,883,900	$ 1,220,000	$ 293,000	$ 3,396,900	$ 3,302,697

Source: Departmental reports, Public Accounts and Estimates.

The Department spent $895,000 on supplies under the Fire Suppression and Communications program for the year ended 31 March 2001. Our review of these expenditures identified the following:

- Of the $1.22 million transferred in November 2000, from the Contingency Reserve to the Fire Suppression and Communications program, $445,000 was transferred to the supplies activity to cover cost overruns. Our review indicated that $565,000 or 63% of the supplies expenditure of $895,000 was made from December 2000 to March 2001, after the normal fire season from mid-April to mid-September. It is questionable whether such expenditures could be regarded as *"emergency"* fire suppression costs for 2000-01.

April, 2000	$ 326	October, 2000	$ 38,853
May, 2000	4,164	November, 2000	123,980
June, 2000	20,562	December, 2000	85,543
July, 2000	23,493	January, 2001	68,544
August, 2000	47,738	February, 2001	28,486
September, 2000	70,435	March, 2001	382,815
			$ 894,939

- We reviewed a sample of 28 purchases totalling $285,000 of the $895,000 spent on supplies. Of the $285,000 reviewed, $210,000 was selected from March 2001. Our review indicated the following:

    - Items such as ATV's, boats, motors, and trailers, totalling approximately $48,000 were purchased during the latter part of March. All of these purchases were charged to the supplies account instead of property, furnishings and equipment. As a result, the Department contravened the *Financial Administration Act* by purchasing equipment from funds provided by the Legislature for supplies.

    - 3 of the 28 invoices indicated purchases of $40,832 for the wildlife compliance; however, these were charged to fire suppression. One invoice was for 2 ATVs delivered to Clarenville, another was for 2 ATVs delivered to Grand Falls-Windsor and the third was for pants and jackets for Gander. In this instance, the Department again contravened the *Financial Administration Act* by purchasing equipment for wildlife compliance from funds provided by the Legislature for supplies for fire suppression.

- For the year ended 31 March 2001 gas purchases of $135,000 from one vendor were paid from the supplies account. $63,000 of these gas purchases were made from October 2000 to March 2001, well after the end of the normal fire season.

- The Department of Works Services and Transportation assigns credit cards to automobiles, ATV's and snowmobiles as needed. For the year ended 31 March 2001, 32 snowmobiles in the Western Region were each assigned a credit card which were charged under one account identification number. Our review of this account identified the following billings charged to the Fire Suppression and Communications program:

- For July and August 2000, this account for *snowmobiles* was charged $74 and $105, respectively; and
- For the period 8 February 2001 to 8 March 2001, this account for *snowmobiles* was charged $1,600.

The Department spent $116,000 on property, furnishings and equipment under the Fire Suppression and Communications program for the year ended 31 March 2001. Our review of these expenditures identified the following:

- Approximately $80,000 or 69% of the 2000-2001 actual expenditures of $116,000 was spent during March 2001. Included in the $80,000 was the purchase of three vehicles; one costing $25,000 and 50% of two vehicles costing $29,000 each. Given the timing of these expenditures (i.e. purchased during the last month of the fiscal year), it is questionable whether such expenditures could be regarded as *"emergency"* fire suppression costs.

Recommendation

The Department should comply with the Financial Administration Act.

3.20 Direct Program Costs - Child Welfare Program

Introduction

Effective 1 April 1998, Government transferred responsibility for the previous Child Welfare Program from the Department of Human Resources and Employment to the Department of Health and Community Services. Government directed that the direct client service portion of the program be integrated and delivered by the Province's four health and community services boards and as separate components of the Grenfell Regional Health Services Board and the Health Labrador Corporation.

The Child, Youth and Family Services Program delivered by Health and Community Services - St. John's Region (the Board) is responsible for the provision of protection and support services to children, youth and their families in the greater St. John's region from seven locations encompassing Conception Bay South in the North to Ferryland in the South and including Bell Island.

An extensive review of the previous *Child Welfare Act* was undertaken during late 1996 and 1997 that resulted in the new *Child, Youth and Family Services Act* (the Act) which was assented to by the House of Assembly in December 1998. After a period of time for policy development and the development of a plan for implementation, the new Act became effective January 2000.

The new legislation is comprehensive, updating the old legislation in all areas. It specifically extended service coverage to youths 16 and 17 years old, formalized the legal rights of biological parents and their immediate families for children receiving services, and emphasized their ongoing significant involvement in the lives of their children.

Figure 1 outlines the direct program costs of the Child Welfare Program for the past three years. It also reflects the impact of the changes resulting from the changed focus and additional responsibilities contained in the new *Child, Youth and Family Services Act*. Management attributes the increase in cost and activity of protection, child welfare and youth services for 1999-00 and 2000-01 to the changes included in the new Act. The significant increase in expenditures in the foster care - independent living arrangements category is largely due to costs that were previously the direct responsibility of the Department of Health and Community Services but were transferred to the Board in 2000-01.

3.20 Direct Program Costs - Child Welfare Program

Figure 1

Health and Community Services - St. John's Region
Actual Discretionary Direct Program Costs
Child Welfare Program
31 March
($000's)

	1999		2000		2001	
Activity	**Budget**	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**
Foster Care	4,271	5,182	5,192	4,951	5,750	4,901
Foster Care - Independent Living Arrangements	137	118	118	268	1,300	1,648
Child Protection	657	930	930	912	1,085	1,171
Youth Services	-	1	-	103	858	907
Child Welfare	485	638	625	733	690	897
Adoption Subsidies	9	17	17	96	20	169
Total	**5,559**	**6,886**	**6,882**	**7,063**	**9,703**	**9,693**

Source: Audited Financial Statements, Health and Community Services - St. John's Region

Scope and Objectives

We completed our review of the Child Welfare Program in November 2001. This review covered the period 1 April 1999 to 31 March 2001. The objective of our review was to determine whether client files contained sufficient documentation to ensure that all payments are in accordance with Board policy and are properly approved, adequately supported and accurately recorded in the Board's financial records.

3.20 Direct Program Costs - Child Welfare Program

Conclusions

Payments made by Health and Community Services - St. John's Region are not always properly approved and supported. Specifically:

- Client files are often poorly organized, incomplete and not consistent regarding the documentation included therein. This makes it difficult to ensure that there is sufficient documentation to support payments made to or on behalf of clients.
- The Board is not adequately reviewing expenditure summaries to ensure that all payments are legitimate. Our audit identified $99,295 paid by the Board that actually belonged to another community health board.
- There are inadequate financial controls and procedures in place to ensure that only properly authorized expenditures occur. This has resulted in overpayments.
- The Board does not have a system in place to monitor, collect and report overpayments. One of the Board's offices had compiled a listing and sent out collection letters, but this listing of overpayments was incomplete and did not include potential overpayments for other offices in the region.
- In those instances where procedures have been implemented to address internal control weaknesses, they have not always been implemented in all of the Board offices.

Expenditures under the child welfare program, by their very nature, involve the payment of a large number of low dollar amounts to many suppliers. As a result, the Board should ensure that there are strong systems and controls in place over expenditure payments. Controls over expenditures would be improved if the Board had systems which could produce financial information by child showing details of payments on a comparative year basis. Furthermore, information should be produced showing total payments to foster parents and for what purpose. Given the cost of the child welfare programs and the significant increases experienced by some of the programs in recent years, this information would strengthen the monitoring and control of expenditures.

Findings and Recommendations

In 1999-00 and 2000-01, the Board made payments to or on behalf of approximately 2,200 children. The Board maintains a file for each individual child. We selected 30 files for review. Our review indicated the following:

Payment Systems Errors

The regional health care boards use three systems to make payments to and on behalf of clients. The three systems include the FACTS client payment system, the SAIP expenditure approval system and the Meditech system. Our review indicated a number of significant problems as follows:

- In 2 of the 30 files selected for review, we found transactions charged to Health and Community Service - St. John's Region which should have been charged to the Eastern Health and Community Services Board. We also identified another file in which a third transaction was charged to the Board in error. The total error related to these three files for the period 1 April 1998 to 31 March 2001 amounted to $99,295. The error in one of the files had been detected by the Board in June or July of 2000, but payments continued to be improperly charged to Health and Community Services - St. John's until January 2001. The other 2 errors, which were identified during our audit, had not been corrected at the end of our field work. These 2 errors went undetected because the Board does not have a system in place for the review of these payments.

  These errors occurred because there are no controls in place to prevent staff in one board from charging payments to another board.

- In 1 file, semi-monthly payments to a foster parent in the amount of $261 was increased to a semi-monthly payment of $1,250, even though we were informed that the system had a preprogramed maximum payment warning message for amounts in excess of $265 for this type of transaction. The Board does not have any controls in place to detect overpayments of this nature.

Client Files

The quality of the organization of, and the written information included in the case files we examined was inconsistent and varied significantly from file to file and from one office to another. Some of the files were poorly organized and the required documentation was not always in the file or was difficult to locate. As a result, it was difficult to locate support for decisions including payments to and on behalf of clients.

Supporting Payment Documentation

The payment approval systems in place at the Board are based upon the assumption that there is a thoroughly documented case plan prepared for each client. These case plans are prepared by the assigned social worker with the family and in consultation with and approved by the supervisor. The plan lays out specific strategies for addressing all of the risks and other issues related to the intervention with the child. All significant changes to the plan must be documented in the case file. The Child Welfare policies and procedures manual sets out in detail the requirements for plan reviews, supervision and documentation.

Expenditures related to the case plan are recommended for payment by the case social worker using a Child Welfare Financial Request form that is approved by the program supervisor. Payments that are unusual because of the amount involved or because of their nature may require the approval of more senior officials.

Our review of the 28 files related to Health and Community Services - St. John's identified the following weaknesses or deficiencies:

- For 21 of the 28 case files examined we were unable to locate a case plan. As a result the Board cannot be assured that the children's needs are adequately assessed and appropriate services provided. Furthermore, expenditures are being made that cannot be related to a properly approved case plan.

- The Act allows the Board to apply to the courts for financial support of a child taken into temporary or continuous care. This application may be made by the Director of Child, Youth and Family Services or a social worker subsequent to the completion of a family financial assessment. None of the files examined had a family financial assessment prepared. As a result, the Board may be foregoing revenues.

- Seven of the files contained supervisory approvals for services to clients after the date that these services had been provided. In many cases, these services require significant amounts of money. For example, we identified payments totalling $23,385 for services for which supervisory approval was given subsequent to the commencement of the service. As a result, services are being provided without the required approval.

- Fourteen instances were identified where there was inadequate approval on file to support payments. For example, in one instance we could not locate an approval to support the payment of $243 for respite. In another instance, $4,500 was paid and charged to a miscellaneous account code without the required approval by the district manager. Consequently, the Board could not provide any evidence that these expenditures were properly approved.

- Nine instances were identified where there was no supplier invoice or other documentation on file to support payments. Policy requires that payments should only be made when there is supporting documentation. As a result, the Board may be paying for goods or services which were not received.

- Eight instances were noted where the expenditure was not charged to the correct account. As a result, the information in the Board's system is not accurate which diminishes the usefulness of the reports generated for management purposes.

Foster Care - Payments totalling $4.9 million in 2000-01

Foster children are those taken into the care of the Director of Child, Youth and Family Services - St. John's Region. These children can remain in foster care until the end of their sixteenth year; however, foster care arrangements can be extended for children who were in foster care on their sixteenth birthday and who attend post secondary or other educational or personal development programs until they reach 21.

Foster care homes are initially licensed by and are monitored on an ongoing basis by child welfare staff. Similar to other child welfare costs, foster care costs are controlled on the basis of an individual case plan for each child.

Over the past three years that the child welfare program has been administered by Health and Community Services - St. John's Region, foster care costs represented in excess of 63% of the $23.7 million in direct costs incurred during that time. Figure 2 provides a breakdown of foster care expenditures by major expenditure category. While regular foster care costs are based upon fixed rates, foster care special payments vary with each child and are based upon individual needs assessments carried out by the case worker with input from the foster parents and approved by supervisory staff.

3.20 Direct Program Costs - Child Welfare Program

Figure 2

Health and Community Services - St. John's Region
Foster Care Cost Per Child by Expenditure Category
31 March
($000's)

Expenditure Category	1999	2000	2001
Foster Care Regular	$1,394	$1,320	$1,271
Foster Care Special	1,159	1,221	1,249
Respite	575	552	573
Medical	321	242	279
Counselling	235	189	131
Day Care	190	248	158
Student Aid	93	141	52
Education Expense	147	140	144
Transportation	168	121	137
Parental Visitation	314	245	287
Other Categories	586	532	620
Total	**$5,182**	**$4,951**	**$4,901**
Children Receiving Foster Care Regular Payments	**330**	**293**	**297**
Equivalent Full Time Children	**222**	**221**	**204**
Average cost per Full Time Equivalent Child	**$23.3**	**$22.4**	**$24.0**

Source: Health and Community Services - St. John's Region internal records

The equivalent full time children figures included in Figure 2 are calculated on the basis of the number of months children received regular foster care divided by the number of payments in the year.

1. Special Foster Care

As noted in Figures 2 and 3, special foster care is a significant cost component in the foster care program. Amounts paid under this category are paid directly to foster parents on the basis of a Special Needs Assessment form. The form identifies twelve key areas of possible need and attaches a numerical ranking to arrive at an amount to be paid to the foster parents to compensate them for the additional behavioural, social or medical needs of the child.

Board policy provides specific direction for all aspects related to the Special Needs Assessment process. For example, the manual directs that the needs assessment be reviewed at least every six months and adjusted accordingly at the time of the review. This implies that the amount could be reduced or increased depending on such things as improved or deteriorating behaviours or other changed needs. Of the 30 files selected, we tested expenditures relating to special foster care in 16 files. We found that 9 of these files tested did not have a needs assessment prepared within six months as required by board policy. In addition, we were advised that it is the policy of the Department of Health and Community Services that amounts assessed are not reduced once they have been increased.

The foster care special assessment form has four sections which requires that medical documentation support the assessment. All of the 16 files tested included payments requiring medical documentation to support the assessment. None of the 16 files had medical support on file.

The special needs assessment form was not specifically designed for the child welfare program but was adapted from the Family and Rehabilitation Program. It is prepared by the social worker in consultation with the foster parents. Almost all of the staff we interviewed at the Board indicated that the needs assessment form should be redesigned to provide better guidance for the determination of the special child welfare allowance.

2. Monitoring and Case Management

We reviewed foster parents' involvement with respect to children under their care and the monitoring activity exercised by Board staff as part of their ongoing responsibilities. Figure 3 shows the six families receiving the highest total payments during the year ending 31 March 2000.

Figure 3

Health and Community Services - St. John's Region
Summary of Six Highest Paid Foster Parents
31 March 2000
($000's)

	Foster Parent A	Foster Parent B	Foster Parent C	Foster Parent D	Foster Parent E	Foster Parent F
Payment Category	**4 Children**	**4 Children**	**2 Children**	**4 Children**	**4 Children**	**3 Children**
Foster Care Special	23	24	31	28	14	17
Foster Care Regular	20	21	11	21	14	11
Respite	15	10	37	2	35	34
Baby Sitting	-	-	2	24	-	-
Counselling For Wards	-	-	4	4	-	1
One on One Support	2	-	3	-	-	-
Other Miscellaneous	13	16	14	10	14	14
Total	**73**	**71**	**102**	**89**	**77**	**77**

Source: Health and Community Services - St. John's Region internal records

Board policy requires an initial and annual home study that addresses all of the requirements necessary for a foster home to maintain its licence. With respect to the initial and annual home study, Board policy specifically states that a financial assessment of the family be carried out to ensure that the family's income is sufficient for the maintenance of the family so that reimbursement for the children in care is not needed to meet the foster family's own expenses.

Our review of foster home monitoring information indicated that the annual home study of Foster Parent D including the financial assessment had not been completed since 29 October 1997. Departmental information on 80 families providing or available to provide foster care indicated that 67 have not been reviewed within the past year as required by policy. The last review dates range as far back as 1992 with many being in 1997 and 1998.

As indicated in Figure 3, significant amounts of funding are paid to foster families for children in the custody of the Director of Child Welfare. Most of the funding is paid directly to foster parents or to other members of the immediate foster family. For example, the use of older biological children of foster parents for babysitting and respite services is encouraged because of their familiarity with and closeness to the foster children. Although significant amounts of funding are paid for the care of foster children, payments are not monitored by officials at the Board to ensure legitimacy of the payments and compliance with Board policy.

For purposes of this review, we identified six families which received significant amounts of funding for children in foster care to determine whether the funds provided were adequately supported and properly monitored. In addition to regular child welfare allowances based on a prescribed formula, the Board also pays a special child welfare allowance as assessed by a social worker in addition to a variety of expenditures including counselling services, respite services, babysitting and, social and recreational activities. As a result, $1.3 million of the $4.9 million in child welfare expenditures is based on a prescribed formula while the remaining $3.6 million is more subjective, and therefore required the approval of social workers and/or supervisors.

Our review of a number of payments indicated that social workers were aware that foster families were receiving significant funding; however, management systems were not in place to provide this information. As a result, they were somewhat surprised when we showed the total amount actually paid in a number of cases.

Each foster child is assigned their own social worker. As a result, in instances where two or more children are placed in one home, there may be several social workers involved in the monitoring of that foster home and in the approval of payments to that same foster home. Control over expenditures would be improved if all social workers were aware of all payments being made to a foster home.

Independent Living Arrangements - Payments totalling $1.6 million in 2000-01

We were advised by Board staff that the emergence of independent living arrangements (ILA's) dates back to the early 1990's. These highly structured, intensively supervised living arrangements were set up, after all other possibilities had been explored, to provide accommodations in a home like setting where the risk for youths as well as the community would be minimized. The children housed in these arrangements have been in the extended care of the director and would normally suffer from a number of problems including severe personal and anti social behaviours.

Youth housed in ILA's are supervised and monitored by Board staff; however, prior to April 2000, all new requests and the funding for these arrangements were processed and approved directly by the Department of Health and Community Services. Effective 1 April 2000, responsibility for the funding for all existing and new arrangements was transferred to the Board. The budget of $648,000 provided by the Department of Health and Community Services for these arrangements was inadequate to cover the $1.65 million cost of existing and new arrangements for 2000-01.

The number of ILA's in existence can vary at any point in time depending on the need. Arrangements can be short-term, long-term or permanent and can involve one or several youth. The actual provision of accommodations and the one on one supervision is provided by independent commercial or community based service providers.

At the time of the transfer of responsibility for the ILA's to the Board, and for most of the 2001 fiscal year, there were 7 to 8 youth being housed in 5 to 6 arrangements. Figure 4 shows the significant arrangements in place during the year.

Figure 4

Health and Community Services - St. John's Region
Significant Independent Living Arrangements
31 March 2001
($000's)

Arrangement	Residents	Amount
1	1	$ 318
2	1	243
3	1	306
4	1	218
5	3	192
6	2	137
7	1	100
Other		134
Total		**$1,648**

Source: Health and Community Services and Health and Community Services -St. John's Region records.

Child Protection - Payments totalling $1.2 million in 2000-01

Child protection services are specialized, family preservation services designed for family situations where a child under the age of 16 years may require protection intervention or when an adult or child requests family services voluntarily. The primary goal of child protection services is the safety, health and well being of children within their own families.

Payments under this program are similar to costs incurred in other programs with the more significant payments being made for respite, counselling, parent coaching and transportation.

3.20 Direct Program Costs - Child Welfare Program

Payments under this program increased from $912,000 in 1999-00 to $1,171,000 in 2000-01. In 2000-01 payments were made on behalf of 609 families and children. Our review indicated that there is a general lack of financial information available to the Board which would indicate total payments made on behalf of each family or child and the nature of the payment. Without this information, the Board cannot properly monitor the expenditures under this program.

Youth Services - Payments totalling $907,000 in 2000-01

One of the more significant changes included in the new Act was to allow for the provision of services to youths 16 years or older but under18 years of age. Prior to the implementation of the requirements of the new Act, service could only be provided to youths over 16 if they were in foster care when they reached their sixteenth birthday and still in an educational or personal improvement program. Youths eligible to receive services under the new Act come into care on a voluntary basis and are required to sign an agreement to adhere to a case plan developed by the case worker with the family and approved by Board officials.

Payments under this program increased from $103,000 in 1999-00 to $907,000 in 2000-01. In 2000-01, payments were made on behalf of 354 youths. Our review indicated that there is a general lack of financial information available to the Board which would indicate total payments made on behalf of each youth and the nature of the payment. Without this information, the Board cannot properly monitor the expenditures under this program.

A separate division has been set up that is dedicated to the care provided to youth and a draft services guidelines policy manual has been prepared. At the time of completion of our field work, the policy was still in the draft stage.

One of the samples tested contained a payment of $650 to cover a damage deposit on board and lodging accommodations. Direction for the payment and refund of such deposits is contained in the draft guidelines; however, we were advised by Board officials that there are no formal procedures or systems in place to manage these payments.

3.20 Direct Program Costs - Child Welfare Program

Child Welfare - Payments totalling $897,000 in 2000-01

Child Welfare allowance is a payment related to children who, while the legal wards of their biological parents, are in the full-time care of relatives or family friends. As with other areas of intervention, all funding is based on need and subject to the discretion of the Director of Child, Youth and Family Services. The basic monthly rate included in the Child Welfare policies is $275 for children up to 11 years and $328 for children 12 years and over.

In addition to providing basic monthly allowances for children in the full-time care of relatives or family friends, the Board also provides payments for a variety of other expenses including transportation, counselling and clothing. In 2000-01, $897,000 was paid on behalf of 222 children. Our review indicated that there is a general lack of financial information available to the Board which would enable it to properly monitor the expenditures under this program.

Draft policies related to the new *Child, Youth and Family Services Act* contain a basic child welfare rate that is the same as the foster care regular rate of $452 for children up to 11 years and $522 for eligible children 12 years and over. In a memo from the Department of Health and Community Services dated 23 December 1999, the Board was advised that all policies and standards related to the new Act would be effective 5 January 2000 except for the Child Welfare allowance rate structure. Our review determined that 66 of the 78 files receiving regular Child Welfare allowance were increased to the higher rate before the new Act came into effect and prior to the receipt of the memo on 23 December 1999. Three of the remaining 12 were increased to the higher rate, subsequent to the memo specifically directing the Board not to increase the allowance. As a result, only 9 of the 78 files were in receipt of the rate directed by the Department.

Recommendations

The Board should ensure that only properly approved and supported payments are processed.

The Board should ensure that there are adequate systems in place to detect and manage the recovery of overpayments made to or on behalf of clients.

Board's Response

Payment System Errors

Since there are three systems used to make payments to clients, it is very difficult to prepare one report that provides a comprehensive list of the payments to a client or caregiver. The Departments of Health and Community Services and Human Resources and Employment, and the Comptroller General's Office are currently in the process of developing a new client payment system to address concerns identified in the report. The implementation of this system is scheduled to start in 2003.

Client Files

An organizational policy has recently been developed to address client documentation and file organization. Implementation of this policy is pending Senior Management review and approval, targeted for February 28, 2002.

Supporting Payment Documentation

In future, it will be a requirement for social workers to verify that a signed, approved, and current case plan is on file before approval is granted by the program supervisor.

In many instances, parents of children who enter care are in receipt of Income Support. In these or other instances where it is clear that the family cannot contribute financially, a family financial assessment is not required.

The program supervisor will be required to ensure that maintenance (and other financial entitlement) for the child has been thoroughly considered. This will be monitored through a quality assurance file review, which will be completed by the program supervisor, within 30 days of a child entering care.

Supervisors occasionally provide verbal approval if the circumstance is considered an emergency and such situations will continue to occur in exceptional circumstances. Social workers will be advised to record that verbal approval had been obtained and to provide written approval when the request is documented to verify that the services received prior approval.

3.20 Direct Program Costs - Child Welfare Program

In the situation outlined in your report (approval of $4,500 under the miscellaneous code) the program supervisor approved this expense in consultation with the Director of Child and Family Services but failed to acknowledge this on the financial approval form. The board will take action to clarify and update, in writing, a consolidated delegation of authority chart regarding financial approvals.

Foster Care

1. Special Foster Care

To increase compliance in this area all social work and program supervisor staff have recently been notified in writing to ensure that a tracking system is in place to record the approvals and review dates of all cases where special rates are in place. Implementation by May 01, 2002.

2. Monitoring and Case Management

The report depicts information regarding payments to the six highest paid foster parents for the year ending March 31, 2000. Payments to foster parents are based on the individual needs of the children in their care. The children being cared for by these particular foster parents have very high needs therefore costs associated with their care are correspondingly high. Continuous efforts are in place to reduce and minimize these costs, maintain the placement while at the same time ensuring that the child's needs are adequately met.

The Director of Child, Youth and Family Services and the program supervisors will put in place a plan to complete all foster parent reviews over the next 6 months and to ensure compliance with policy in future.

Independent Living Arrangements

Insufficient funds were transferred to Health and Community Services, St. John's Region from the Department of Health and Community Services in April 2000 to cover the cost of the existing and new independent living arrangements. There have been several initiatives undertaken to alleviate the deficit including the establishment of an ILA planning committee, the assignment of all independent living arrangements to one social worker, regular review of all budgets. Budget reductions have been negotiated in four of the existing arrangements and three ILA's will be either phased out or transferred to less costly arrangements in 2001/2002.

Youth Services

There is no mechanism in place that enables us to total the payments to a specific youth by entering a code in the computer systems. By manually reviewing the payroll for STA/LTA for a fiscal year, the total of all cheques can be calculated but this is an onerous and tedious task considering the average monthly caseload for Youth receiving residential services is 100 cases.

Policy for recovery of damage deposits or any overpayments has now been developed and implemented. There is also a system in place to manage the recovery of any overpayments issued to youth.

Child Welfare

Basic rates for the child welfare allowance program are established in policy. The policy does however, state that in special situations, with the approval of the District Manager, such allowances may be increased to the foster care rate and that further increases may be approved by the Regional Director. Again, the Board recognized the need to revise the delegation of authority so that it reflects current language and position titles.

Other Initiatives

It is important to note that in the fall of 1998 in recognition of the Board's expanded mandate, an external review of internal control and administrative support functions by Deloitte & Touche was commissioned. The Board implemented the recommendations of the review including restructuring of the Financial Services Department, the implementation of a computerized materials management system, and changes to financial reporting and budgeting.

An Assistant Executive Director for the Child Youth and Family Services program was also recruited. This position was mandated to review the systems and processes in this program to enhance the fiscal accountabilities, improve services to clients, and oversee the complex implementation process required to support the new Child Youth and Family Services Act.

3.21 Monitoring Health and Community Services Boards

Introduction

There are four health and community services boards in the Province comprised of St. John's, Eastern, Central and Western Regions. Each of these boards has local offices throughout the Province. Health and community services in Northern Newfoundland and Labrador are administered as separate components of the Grenfell Regional Health Services Board and the Health Labrador Corporation.

The health and community services boards provide traditional community health services including health promotion and protection, mental health services, continuing care, and immunization services. In addition, community service programs including child welfare, community and corrective services, and family rehabilitative services, are delivered under the health and community services boards.

The financial position of the four community services boards has been deteriorating over the past several years. In an effort to control operating deficits, boards have implemented changes to reduce costs and Government has provided additional funding. As a part of our audit work, we continue to monitor the financial position and results of operations of the four community services boards.

Conclusion

The financial position and operating results of the four health and community service boards remained in poor condition in 2000-01. The total net liabilities of the four boards increased to $19.8 million at 31 March 2001, from $9.2 million at 31 March 2000. These net liabilities will eventually have to be funded by Government.

Although Government provided $162.1 million in funding to the boards in 2000-01, compared to $148.6 million in 1999-00, the four boards incurred operating deficits totalling $11.7 million in 2000-01. These deficits indicate a further deterioration in operating results compared to the $4.6 million operating deficit incurred by the four boards in 1999-00.

Observations

Financial Position

Our review of the health and community service boards' financial position in 2001 included an assessment of the financial results and the financial position of the four boards for the most recent three years as provided in Figure 1.

Figure 1

Health and Community Services Boards
Summary of Financial Position
31 March
($ Millions)

	2001					Total	
	St. John's	Eastern	Central	Western	Total	2000	1999
(Bank indebtedness) cash	(3.8)	(3.8)	(2.6)	2.7	(7.5)	0.0	0.7
Accounts payable	(2.7)	(1.1)	(1.0)	(2.0)	(6.8)	(6.1)	(6.1)
Less: accounts receivable	3.5	1.4	1.0	1.1	7.0	7.4	7.0
Net current assets (liabilities)	**(3.0)**	**(3.5)**	**(2.6)**	**1.8**	**(7.3)**	**1.3**	**1.6**
Long-term debt	(0.7)	-	-	-	(0.7)	(0.7)	(0.7)
Severance pay	(3.0)	(1.8)	(1.7)	(1.7)	(8.2)	(6.7)	(5.9)
Vacation pay	(1.1)	(1.0)	(0.7)	(0.8)	(3.6)	(3.1)	(2.4)
Total net liabilities	**(7.8)**	**(6.3)**	**(5.0)**	**(0.7)**	**(19.8)**	**(9.2)**	**(7.4)**

Source: Audited financial statements

Figure 1 indicates that the financial position of the boards in 2000-01 is continuing to deteriorate. The total net liabilities of the four boards has increased from $7.4 million in 1998-99 to $9.2 million in 1999-00 and to $19.8 million in 2000-01.

In addition we made the following observations regarding the financial position of the boards:

- Three of the four boards had bank overdrafts as at 31 March 2001 to finance a part of their operations. The four boards went from a nil cash position in 2000 ($700,000 in 1999) to a bank indebtedness of $7.5 million in 2001.

- Total net current liabilities of $7.3 million as at 31 March 2001 represent the amount by which the boards' current liabilities exceed the liquid (cash convertible) assets. The boards went from having total net current assets of $1.6 million in 1999 to total net current assets of $1.3 million in 2000 and total net current liabilities of $7.3 million in 2001.

- After adding long-tem debt, severance pay and vacation pay, Figure 1 shows that the total amount of funding required to meet the total net liabilities of these four boards as at 31 March 2001 totalled $19.8 million. This represents an increase from the $9.2 million reported in 2000 and the $7.4 million in 1999. The $19.8 million will have to be funded sometime in the future.

The $19.8 million in total net liabilities as at 31 March 2001 will be affected by the results of current operations and the level of funding by Government. If the boards have annual operating surpluses in the future, these surpluses could be used to fund their liabilities. If, on the other hand, the boards have annual operating deficits, these deficits, along with the liabilities, will have to be funded.

Operating Results

Figure 2 indicates the annual results of operations for the health and community services boards for the years ended 31 March 2000 and 31 March 2001.

Figure 2

Health and Community Services Boards
Summary of Annual Operating Results
31 March
($ Millions)

	St. John's		Eastern		Central		Western		Total	
	2001	**2000**	**2001**	**2000**	**2001**	**2000**	**2001**	**2000**	**2001**	**2000**
Revenue										
Provincial Plan	63.2	57.6	34.1	31.8	32.9	30.5	31.9	28.7	162.1	148.6
Board fund grant	-	-	0.1	0.1	0.3	0.2	0.3	-	0.7	0.3
Other	0.3	0.1	0.9	0.2	1.3	0.4	1.2	1.1	3.7	1.8
	63.5	57.7	35.1	32.1	34.5	31.1	33.4	29.8	166.5	150.7
Expenses										
Administration	5.2	4.8	3.8	3.3	3.9	3.4	2.9	2.7	15.8	14.2
Client services programs	62.0	54.4	34.0	29.6	32.7	28.1	31.5	27.3	160.2	139.4
	67.2	59.2	37.8	32.9	36.6	31.5	34.4	30.0	176.0	153.6
Deficit before non-shareable expenses	**(3.7)**	**(1.5)**	**(2.7)**	**(0.8)**	**(2.1)**	**(0.4)**	**(1.0)**	**(0.2)**	**(9.5)**	**(2.9)**
Non-shareable expenses	0.6	0.4	0.7	0.2	0.6	0.4	0.3	0.7	2.2	1.7
Deficit after non-shareable expenses	**(4.3)**	**(1.9)**	**(3.4)**	**(1.0)**	**(2.7)**	**(0.8)**	**(1.3)**	**(0.9)**	**(11.7)**	**(4.6)**

Source: Audited financial statements

Figure 2 indicates that each of the four boards incurred an operating deficit in 2001 ranging from $1.3 million to $4.3 million. Annual operating results for these four boards have deteriorated since 1998 when only one of the boards, the Central Regional Health and Community Services Board, reported a deficit of $200,000. Although Government funding provided to the boards has increased from $148.6 million in 1999-00 to $162.1 million in 2000-01, expenditures have also increased from $153.6 million in 1999-00 to $176.0 million in 2000-01, and as a result, the boards continue to incur operating deficits.

Department's Response

The Department shares the concerns of the Auditor General regarding financial performance and fiscal stability of the institutional and integrated health boards in this province. This issue is not unique to the Province of Newfoundland and Labrador. The provinces and territories have been struggling with steady increases in operating costs, while the Federal government has provided limited increases in funding for health services. On September 11, 2000, however, the First Ministers reached an agreement on additional funding for health and other social programs which will increase federal transfers to the Province over the next six years. The Province is still concerned, however that the amount committed does not restore the federal share of funding to the amounts received in the early 1990's.

The Department has also undertaken numerous initiatives to alleviate the financial concerns related to the health and community services boards:

- *The Department improved base funding by an additional $13 million for operating purposes in the fiscal year 2001/02 to improve their fiscal stability.*

- *The Minister of Health and Community Services delivered and participated in a series of Health Forums around the province in the fall of 2001. These public sessions were developed to inform the public of some basic issues facing health service providers and the funding bodies, and to solicit input from the general public and related organizations on key questions related to the future of health services in the province. The results of these forums are now being summarized and studied to assist in future planning of the Department and the Boards.*

- *The Department is currently conducting a review of the operations and programs of the Health and Community Services Boards. The focus of this review is fiscal sustainability of current programs and services. The Review is expected to be completed by March 31, 2002.*

- *The Department has invested much time and effort into developing a new Accountability Framework for the Department and the Health and Community Services Boards. This new Framework has resulted in several new partnership initiatives related to improving accountability, funding, budgeting, and reporting issues of the Department and its boards. Some of these initiatives are summarized below:*

  - *The Department seconded a Chief Executive Officer of one of the Health and Community Services Boards to begin application of the provincial government Accountability Framework to the health sector.*

  - *The Department created a Health and Community Services Planning Committee. This Committee is co-chaired by the Deputy Minister and a Chief Executive Officer of one of the boards. This Committee's mandate is to ensure the appropriate integration of existing and new processes for strategic planning, budget and operational planning, accountability, information and communications technology, and issue based and sectoral planning.*

  - *The Department developed a new Budget Submission Request process for the fiscal year beginning 2001/02. The benefits of this process are as follows:*

    - *The process allows the Department to review the fiscal plans, including new initiatives and other operational changes, of the boards before the fiscal year begins;*
    - *The process ensures the boards are developing operational and fiscal plans well in advance of each fiscal year;*

  - *The budget submission provides information necessary to present to Treasury Board for budget consideration; and*
  - *The information presented also gives the Department a standard against which it can evaluate the boards' fiscal performance for that fiscal year.*

- *The Department, in partnership with the boards developed a process for monitoring fiscal results of the boards throughout the year. This Budget Monitoring reporting requirement was effective for the 2000/01 fiscal year. Boards are now required to submit detailed financial data on a monthly basis, which include actual to budget analysis, and current year vs. prior year analysis, projected deficit to the end of the fiscal year, as well as narrative explanations for fluctuations in the variances.*

3.22 Monitoring Hospital Boards

Introduction

From 1 November 1994 to 1 January 1996 the Government of Newfoundland and Labrador established eight regional health care institutions boards to administer health care facilities in Newfoundland and Labrador. These boards took over the facilities previously administered by many small local boards.

The financial position of the eight hospital boards has been deteriorating over the past several years. In an effort to control operating deficits, boards have implemented changes to reduce costs and Government has provided additional funding. As a part of our audit work, we continue to monitor the financial position and results of operations of the eight hospital boards.

Conclusions

The financial position of the eight hospital boards is continuing to deteriorate although funding has increased substantially. The net liabilities of the eight boards has increased from $286.0 million at 31 March 2000 to $362.2 million at 31 March 2001. These net liabilities will eventually have to be funded by Government.

Government funding provided to the boards increased from $645.6 million in 1999-00 to $682.3 million in 2000-01. Although additional funding was provided, these boards still reported current year operating deficits totalling $60.5 million for the year ended 31 March 2001 compared to operating deficits totalling $33.6 million in 1999-00.

Observations

Financial Position

Our review of the hospital boards' financial position included an assessment of the financial results and the financial position of the eight boards for the two years ended 31 March 2000 and 31 March 2001. This information is outlined in Figure 1 and indicates that the financial position of the eight hospital boards in 2000-01 is continuing to deteriorate. The total net liabilities of the eight boards have increased from $286.0 million in 2000 to $362.2 million in 2001. These net liabilities of $362.2 million will eventually have to be funded by Government.

Figure 1

Hospital Boards
Summary of Financial Information
31 March
($ Millions)

	Board								Total	
	1	2	3	4	5	6	7	8	2001	2000
Cash (bank indebtedness)	3.4	(6.6)	(10.7)	(7.9)	1.4	(18.3)	(0.5)	(1.6)	(40.8)	(11.4)
Accounts payable	(32.6)	(2.4)	(4.9)	(4.0)	(5.3)	(11.9)	(2.8)	(3.7)	(67.6)	(62.1)
Current LTD	(1.6)	(0.3)	(0.5)	(0.3)	(0.3)	(0.2)	-	-	(3.2)	(3.4)
Less: A/R	21.1	3.1	4.7	2.9	2.5	9.4	3.1	3.2	50.0	54.4
Net assets (liabilities)	(9.7)	(6.2)	(11.4)	(9.3)	(1.7)	(21.0)	(0.2)	(2.1)	(61.6)	(22.5)
Long-term debt	(145.4)	(7.4)	(6.2)	(3.9)	(13.1)	(4.3)	-	(1.3)	(181.6)	(155.1)
Severance pay	(44.7)	(5.9)	(4.4)	(6.2)	(7.6)	(14.9)	(3.5)	(2.4)	(89.6)	(82.4)
Vacation pay	(11.8)	(2.1)	(2.2)	(3.2)	(3.4)	(3.7)	(1.9)	(1.1)	(29.4)	(26.0)
Total Net Liabilities	(211.6)	(21.6)	(24.2)	(22.6)	(25.8)	(43.9)	(5.6)	(6.9)	(362.2)	(286.0)

Source: 31 March 2001 audited financial statements except 31 March 2000 for #8, Health Labrador Corporation.

In addition, we made the following observations regarding the financial position of the eight hospital boards:

- As at 31 March 2001, the cash positions of the boards varied, with six of the eight boards reporting bank overdrafts. The cash positions ranged from $3.4 million on deposit for the Health Care Corporation of St. John's to an overdraft of $18.3 million for the Western Health Care Corporation.

- The boards are reporting combined net current liabilities of $61.6 million as at 31 March 2001, which represents the amount by which their suppliers' credit and current portion of long term debt exceed their liquid (cash convertible) assets. This amount has not been funded by the Department.

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Hospital Boards
Summary of Financial Information
31 March
($ Millions)

	Board								Total	
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**2001**	**2000**
Cash (bank indebtedness)	3.4	(6.6)	(10.7)	(7.9)	1.4	(18.3)	(0.5)	(1.6)	(40.8)	(11.4)
Accounts payable	(32.6)	(2.4)	(4.9)	(4.0)	(5.3)	(11.9)	(2.8)	(3.7)	(67.6)	(62.1)
Current LTD	(1.6)	(0.3)	(0.5)	(0.3)	(0.3)	(0.2)	-	-	(3.2)	(3.4)
Less: A/R	21.1	3.1	4.7	2.9	2.5	9.4	3.1	3.2	50.0	54.4
Net assets (liabilities)	(9.7)	(6.2)	(11.4)	(9.3)	(1.7)	(21.0)	(0.2)	(2.1)	(61.6)	(22.5)
Long-term debt	(145.4)	(7.4)	(6.2)	(3.9)	(13.1)	(4.3)	-	(1.3)	(181.6)	(155.1)
Severance pay	(44.7)	(5.9)	(4.4)	(6.2)	(7.6)	(14.9)	(3.5)	(2.4)	(89.6)	(82.4)
Vacation pay	(11.8)	(2.1)	(2.2)	(3.2)	(3.4)	(3.7)	(1.9)	(1.1)	(29.4)	(26.0)
Total Net Liabilities	(211.6)	(21.6)	(24.2)	(22.6)	(25.8)	(43.9)	(5.6)	(6.9)	(362.2)	(286.0)

Source: 31 March 2001 audited financial statements except 31 March 2000 for #8, Health Labrador Corporation.

In addition, we made the following observations regarding the financial position of the eight hospital boards:

- As at 31 March 2001, the cash positions of the boards varied, with six of the eight boards reporting bank overdrafts. The cash positions ranged from $3.4 million on deposit for the Health Care Corporation of St. John's to an overdraft of $18.3 million for the Western Health Care Corporation.

- The boards are reporting combined net current liabilities of $61.6 million as at 31 March 2001, which represents the amount by which their suppliers' credit and current portion of long term debt exceed their liquid (cash convertible) assets. This amount has not been funded by the Department.

- In addition to the operating debt of the hospital boards, there are also significant long-term liabilities. These liabilities include $181.6 million in long-term debt, $89.6 million for severance pay due on retirement of employees and $29.4 million for unused vacation pay. Of the $181.6 million in long-term debt, $145.4 million relates to the Health Care Corporation of St. John's.

Operating Results

Figure 2 shows the annual results of operations for the eight hospital boards for the two years ended 31 March 2000 and 31 March 2001.

Figure 2

Hospital Boards
Summary of Annual Operating Deficits
Years Ended 31 March
($ Millions)

Board	Deficit	
	2000	2001
1. Health Care Corporation of St. John's	(9.0)	(23.7)
2. Avalon Health Care Institutions Board	(2.9)	(4.4)
3. Peninsula's Health Care Corporation	(4.7)	(3.8)
4. Central East Health Care Institutions Board	(3.0)	(5.3)
5. Central West Health Care Institutions Board	(2.0)	(4.5)
6. Western Health Care Corporation	(8.9)	(11.6)
7. Grenfell Regional Health Services Board	(0.4)	(1.8)
8. Health Labrador Corporation	(2.7)	(5.4)
Total Deficits	**(33.6)**	**(60.5)**

Source: 31 March 2001 audited financial statements except no audited financial statements have been received for Health Labrador Corporation for 31 March 2001 therefore information received from the Department of Health and Community Services was used.

3.22 Monitoring Hospital Boards

As Figure 2 indicates, all eight hospital boards incurred operating deficits in 2000-01. Although total Government funding provided to the boards has increased from $645.6 million in 1999-00 to $682.3 million in 2000-01, expenditures have also increased from $745.9 million in 1999-00 to $816.3 million in 2000-01 and, as a result, the boards continue to incur operating deficits.

Department's Response

The Department shares the concerns of the Auditor General regarding financial performance and fiscal stability of the institutional and integrated health boards in this province. This issue is not unique to the Province of Newfoundland and Labrador. The provinces and territories have been struggling with steady increases in operating costs, while the Federal government has provided limited increases in funding for health services. On September 11, 2000, however the First Ministers reached an agreement on additional funding for health and other social programs which will increase federal transfers to the Province over the next six years. The Province is still concerned, however that the amount committed does not restore the federal share of funding to the amounts received in the early 1990's.

The Department has also undertaken numerous initiatives to alleviate the financial concerns related to the Boards:

- *The Department improved operational base funding for all institutional and integrated health boards by $50 million for the fiscal year 2001/02 to improve their fiscal stability.*

- *The Minister of Health and Community Services delivered and participated in a series of Health Forums around the province in the fall of 2001. These public sessions were developed to inform the public of some basic issues facing health care providers and the funding bodies, and to solicit input from the general public and related organizations on key questions related to the future of health services in the province. The results of these forums are now being summarized and studied to assist in future planning of the Department and the Boards.*

- *During the fiscal year 2001/02, the Department requested all boards to achieve a balanced budget position. Boards projecting deficits have been requested to identify measures to achieve this goal. The Department continues to work with the Boards with the aim to eliminating operating deficits.*

- *The Department has invested much time and effort into developing a new Accountability Framework for the Department and the Health Boards. This new Framework has resulted in several new partnership initiatives related to improving accountability, funding, budgeting, and reporting issues of the Department and its health boards. Some of these initiatives are summarized below:*

    - *The Department seconded a Chief Executive Officer of one of the Health and Community Services boards to begin application of the provincial government Accountability Framework to the health sector.*

    - *The Department created a Health and Community Services Planning Committee. This Committee is co-chaired by the Deputy Minister and a Chief Executive Officer of one of the boards. This Committee's mandate is to ensure the appropriate integration of existing and new processes for strategic planning, budget and operational planning, accountability, information and communications technology, and issue based and sectoral planning.*

    - *The Department developed a new Budget Submission Request process for the fiscal year beginning 2001/02. The benefits of this process are as follows:*

        - *The process allows the Department to review the fiscal plans, including new initiatives and other operational changes, of the boards before the fiscal year begins;*
        - *The process ensures the boards are developing operational and fiscal plans well in advance of each fiscal year;*
        - *The budget submission provides information necessary to present to Treasury Board for budget consideration; and*
        - *The information presented also gives the Department a standard against which it can evaluate the boards' fiscal performance for that fiscal year.*

3.22 Monitoring Hospital Boards

- *The Department, in partnership with the boards, developed a process for monitoring fiscal results of the boards throughout the year. This Budget Monitoring reporting requirement was effective for the 2000/01 fiscal year. Boards are now required to submit detailed financial data on a monthly basis, which include actual to budget analysis, and current year vs. prior year analysis, projected deficit to the end of the fiscal year, as well as narrative explanations for fluctuations in the variances.*

It should also be noted that the Department does not concur with the amount reported as Operating Deficits of the boards in Figure 2. The Department prefers the method of presentation used in your Report paragraph on the Health and Community Services Boards (Figure 2). The amount reported in the Hospital Boards' table is the deficit for accounting purposes, after non-shareable expenses. This amount is not reflective of the funding requirements of the Boards, as it includes non-cash items such as amortization and accrued vacation and severance compensation. The department calculates the "official" working capital deficit of the boards each year. The total deficits for the years ending March 31, 2000 and March 31, 2001 for these eight boards is $19.8 million and $40.2 million, respectively.

3.23 Community Corrections

Introduction

Community Corrections is a branch of the Adult Corrections Division of the Department of Justice. This Branch is responsible for providing pre-sentence investigation services to assist the Court in determining the most appropriate sentence and to administer community-based sentencing alternatives through which the Courts may satisfy a range of sentencing objectives. These sentencing alternatives include probation supervision, community service order program, conditional sentence order program, restitution enforcement, temporary absence supervision (includes electronic monitoring) and contracted community-based programming. Community Corrections has 14 regional offices located throughout the Province with a total staff complement of 48. In addition, there are 14 paraprofessional Assistant Probation Officers who are hired on a fee-for-service basis to provide services to remote communities which are otherwise difficult to service. Figure 1 outlines the expenditures of the Branch for the years ending 31 March 2000 and 31 March 2001.

Figure 1

Community Corrections
Expenditure and Related Revenue
31 March
($000's)

	2000 Budget	2000 Actual	2001 Budget	2001 Actual
Salaries	1,626	1,744	1,809	1,798
Employee Benefits	4	2	4	3
Transportation & Communications	151	134	151	142
Supplies	11	12	11	14
Professional Services	48	72	48	56
Purchased Services	805	731	805	774
Property, Furnishings & equipment	15	10	15	14
Grants & Subsidies	72	72	72	72
Total Expenditure	**2,732**	**2,777**	**2,915**	**2,873**

Source: Government's Financial Management System

3.23 Community Corrections

During 1998-99 there were 2,238 probation and conditional sentence order admissions and on average 2,491 active cases handled by the Community Corrections Branch as outlined in Figure 2. On average there were 79 cases for every probation officer. These range from a high of 107 cases per probation officer in Marystown to a low of 52 cases per probation officer in Wabush.

Figure 2

Adult Corrections
Community Corrections
Activity
1998-99

Regional Office	Probation Officers	Admissions	Average Caseload	Probation Officer/ Caseload Ratio
St. John's	10	718	802	1:80
Harbour Grace	2	208	165	1:83
Clarenville	1	55	57	1:57
Gander	2	145	139	1:70
Grand Falls	1.5	130	127	1:85
Corner Brook	4	305	302	1:76
Stephenville	3	229	252	1:84
Happy Valley	2	114	163	1:82
Marystown	1	54	107	1:107
Springdale	1	78	90	1:90
Channel	1	54	79	1:79
Port Saunders	1	61	63	1:63
Nain	1	39	93	1:93
Wabush	1	48	52	1:52
Total	**31.5**	**2,238**	**2,491**	**1:79**

Source: Adult Corrections Division Bi-annual Report

3.23 Community Corrections

Scope and Objectives

We completed our review of the Community Corrections Branch in November 2001. The objectives of our review were:

- to identify and evaluate the policies and procedures in place to manage the operations of community correctional services in the Province;
- to determine the costs incurred in operating community correctional services in the Province;
- to determine whether there are adequate systems and procedures in place to monitor and control associated costs;
- to assess the adequacy of information systems used to manage community correctional services; and
- to assess compliance with relevant legislation.

Conclusions

Although there is a Policy Manual at the Department, it does not reflect all current practices. The Manual is currently being reviewed and updated. Our review of compliance with policies and procedures indicated the following:

- Probation is a community based sentence imposed by the Court covering a period of time to a maximum of three years. A conditional sentence is a sentencing option imposed by a judge as an alternative to incarceration. The conditional sentence order provides for offenders to serve an incarceral sentence in the community rather than in custody for a maximum period of two years less one day. This option only became available in 1996 as a result of Federal legislation. Offenders on either probation or a conditional sentence are assessed by the Probation Officer and can be assessed as low risk, medium risk or high risk.

  Our review indicated that the Department is not complying with its policies regarding the assessment of offender risk, offenders are not being visited and/or monitored as required, and the data from the computerized system being used for offender risk assessment is producing results inconsistent with policy. As a result, some offenders who have been assessed as high risk are in the community without the required supervision.

3.23 Community Corrections

- Community Corrections policy requires that a case plan be completed within 30 working days of the initial interview with the offender. The case plan outlines how the terms of a probation order or a conditional sentence order will be carried out and the counseling requirements and programs that may be required to rehabilitate the offender. Our review indicated that case plans are not always completed as required by Departmental policy.

- Community Corrections policy requires that the Chief Probation Officer carry out operational audits on regional offices, three times per year. During these audits the Chief Probation Officer would review case files to ensure that activities reflect Community Corrections policies and procedures, as well as utilizing appropriate methods of intervention to achieve planned outcomes. These audits are not being carried out. Much of this information is in the Community Corrections Information System but the Chief Probation Officer can not access the other regions from Head Office.

- Community Corrections policy, for the electronic monitoring program, requires that only offenders who have been assessed as medium risk and non-violent can be placed on this program. We found that of 478 offenders who were on the program from 1994 to 31 March 2000, 186 had been classified as high risk.

- Electronic Monitoring policy requires a minimum of 2 visits per 8 day period with offenders by Corrections staff. In all of the case files examined this level of contact was not achieved.

- The Community Corrections Branch has 33 electronic monitoring devices. The Branch is required to keep an inventory of these devices. When we performed an inventory count in October 2000, the Branch could not locate 9 of the devices.

- The number of offenders being placed on electronic monitoring is declining. Initially, there were 50 monitoring devices in inventory which has since been reduced to 33. The average daily usage for 2000-01 was 17 units. When we performed an inventory count in October 2000, there were 11 offenders on electronic monitoring. The Community Corrections Branch has excess capacity in monitoring units. These devices cost the Branch $3,825 per month in rental fees.

Community-Based Programs

The Community Corrections Branch provides for community-based intervention programs, in such areas as anger management, sex offenders and male batterers, to offenders to assist in their safe reintegration into society such that the risk of re-offending is reduced. The Branch has two contracts at an annual cost of $456,000, to provide programs in both St. John's ($356,000) and on the West coast of the Province ($100,000). Our review of these contracts disclosed the following:

- There were no proposal calls on these contracts and they have not been approved by Cabinet as required by Government's policy on the hiring of consultants.
- Instances were identified where the minimum number of contracted hours were not provided by the contractor.
- Although the contract in St. John's has been renewed since 1997-98 at the same cost of $356,000, our review indicated that the number of hours of service provided under the contract has been decreasing.

Management Information Systems

The Community Corrections Information System operated by Community Corrections to manage case files is not adequate to meet their needs. For example:

- Each region has its own stand alone system which cannot be accessed from any other region including Head Office. Therefore the Chief Probation Officer is unable to use the system to monitor activity within the regions.
- There are limitations within the system in that information entered into the system cannot be changed even if entered incorrectly without obtaining the assistance of the IT Division at the Department of Justice.
- The system has information common to another Departmental system. However, since these systems are not linked, complete information on an offender is not readily available and duplicate entry of the same information results in inefficiencies.

3.23 Community Corrections

Findings and Recommendations

Compliance with Policies

The official Policies and Procedures Manual for the Community Corrections Branch that was obtained from the Department of Justice has not been updated to reflect changes in operations of the Branch. The Branch has continued to draft policies and procedures and even revise those already in place but none of this has been officially approved. For instance, the electronic monitoring program, which was introduced in 1994, has a draft policy in place but it has never been approved by the Department. As a result, the probation officers have a collection of draft policies that have been circulated for comment but never formally incorporated in the official Policies and Procedures Manual. Discussions with probation officers indicated that they were aware of policies covering the Community Corrections Branch, even though the policies have not been formally approved. The Department appears to have recognized this since there has been much effort recently to update policies and procedures.

Our review of the policies and procedures in place at Community Corrections disclosed the following:

1. Probation

Probation is a community-based sentence imposed by the Court covering a period of time to a maximum of three years. Probation can be ordered by the Court either in the case where the offender is released directly into the community or in conjunction with jail time where jail time does not exceed two years. A probation order can be issued for the conviction of any criminal offence where there is no minimum sentence or other exclusions prescribed by the Criminal Code of Canada. This is a legal document which outlines the conditions which the offender must fulfill while on probation. These conditions usually include keep the peace and be of good behaviour, appear before Court as required and to inform a probation officer of any changes in name, address or employment. The order may also require the offender, for example, to be under the supervision of a probation officer, to not use alcohol or drugs, to comply with prescribed treatment programs, to comply with community service orders, and/or to make restitution.

The Court forwards copies of all probation orders to Community Corrections. Community Corrections enters all probation orders into its computerized case management system. Once the term of the probation order begins (immediately after conviction if no jail time or immediately after release from jail if jail time is ordered), the offender is required to meet with a probation officer to have the order and its conditions explained. Information obtained from this meeting and from Court and

Community Corrections files is used to assess the offender's risks and needs. This assessment determines the case plan for the offender which includes how often they have to be seen by the probation officer and any treatment programs that might be required.

The probation officer supervises the offender through the term of the probation order to monitor the offender's compliance with the conditions of the probation order. If the probation officer becomes aware that the offender is violating these conditions, the offender can face repercussions including incarceration. The probation officers use their own discretion in determining tolerance for violations of conditions of the order.

(a) Supervision

The probation officer's assessment of the offender's risk level determines how often the offender is going to be required to meet with the probation officer. There are three levels of risk assessed - low, medium and high. Community Corrections policy requires bi-weekly contact for high risk, monthly for medium and for those assessed as low, the file is placed administratively inactive immediately unless a community service order has been issued or the offender has been convicted of sexual or spousal assault. After six months, all active cases are to be assessed again for possible reclassification of risk.

During our review, we randomly selected 20 probation case files to assess compliance with supervision requirements. Our findings are as follows:

- In 15 of the 20 orders examined, a reclassification pertaining to level of risk was not completed as required by the policy. Of the remaining 5 cases, a reclassification was completed but not within the required 6 months. We also requested a report which listed cases having overdue reclassifications at the St. John's office at the date of our review. The report indicated that 376 of 658 active cases had overdue reclassifications.

- In 4 of the 20 cases examined, the offender was placed on administrative inactive status. Two of the offenders were assessed as high risk and 2 were assessed as medium risk and therefore none of the 4 cases should have been placed on administrative inactive status which requires a low risk assessment.

- A review of Community Corrections computerized case management system indicated that there were cases listed where no risk level was identified. To test this, we selected 10 case files where the classification in the system was blank to determine why the classification would not have been done. We found that the explanations appeared adequate in 7 cases with the reasons offered including case had been transferred to another region, case actually belonged to another Province so Community Corrections was only performing courtesy supervision or terms of probation had been violated before primary assessment could be completed so offender is no longer on probation. In the other 3 cases an error was made by the probation officer and there is no reasonable explanation why these three cases were not classified.

- To test frequency of contact between offenders and Corrections staff we selected 16 probation orders and looked at the number of visits for the period on probation. The probation order issued by the Court may or may not include frequency of contact. Since the probation orders included in our sample did not include a condition setting the frequency of contact with the probation officer, the probation officer would be required to assess risk to determine frequency of contact. Type of contact includes home visits, office visits, telephone calls and collateral checks with third parties. There were 13 high risk and 3 low risk cases in the sample. Offenders assessed at low risk are made administratively inactive and no contact or monitoring is required. However, in cases where offenders are assessed at high risk, probation officers are required to make contact on a bi-weekly basis.

  Our review of these case files indicated that probation officers were not making the required bi-weekly contact for any of the 13 high risk offenders.

- During our examination we observed instances where offenders had been convicted of what would be considered a high risk offence but yet were classified as low in the computerized case management system. To test this further, we requested a report on high risk offences such as major assault, sexual abuse, sexual assault, and simple assault for the 1999-2000 fiscal year. From this report we selected a sample of 10 and reviewed their classification. Our analysis indicated:

- In 4 of the 10 cases examined, even though the computerized risk assessment system had assessed the offenders as low, the probation officer performed an override on the system to classify the offender as high. The override was performed in order to bring the assessed risk in line with established policy.

- In 2 of the 10 cases examined, the cases were overridden from low to medium. The override was performed in order to bring the assessed risk in line with established policy.

- In 3 of the 10 cases examined, the offender was assessed as low by the system and the probation officer did not override this assessment. Therefore these offenders would have been placed immediately on inactive administrative status unless the offender had a community service order.

- In the remaining case the offender classification system classified the offender as low even though the offence they were convicted of was sexual abuse. Community Corrections policy forbids offenders convicted of such crimes from being placed on inactive status (low risk). An official of Community Corrections confirmed that this assessment should have had an override performed to change the classification from low risk to high risk. As a result, this offender would have had only limited contact (since it is a sexual abuse case, it can not go inactive so there would be some minimal contact) with the probation officer as opposed to bi-weekly contact required for high risk offenders.

In summary, the Department is not complying with its policies regarding the assessment of offender risk, offenders are not being visited and/or monitored as required, and the data from the computerized system being used for offender risk assessment is producing results inconsistent with policy. As a result, some offenders who have been assessed as high risk are in the community without the required supervision.

(b) Case Plan

Community Corrections policy requires that a case plan be completed within 30 working days of the initial interview with the offender. The case plan outlines how the terms of a probation order or a conditional sentence order will be carried out. The case plan will indicate the counseling requirements and programs that may be required to rehabilitate the offender. The case plan would include the probation officer's strategy to address the conditions of the offender's probation order to ensure these conditions are met.

We found that in 6 of the 20 sample items there was no case plan completed as required by policy. In another 3 of the 20 files examined case plans were completed; however, they were not prepared within the 30 working day period. At the date of our review, we requested a report which listed cases having overdue case plans. Of 658 active cases, the report indicated that 274 case plans had not been prepared.

As a result, offenders may not be receiving the rehabilitative services which they require. In addition, offenders may not be properly monitored.

2. Operational Audits

Departmental policy requires that *"operational audits of regional offices will be carried out by the Chief Probation Officer at a frequency of three (3) times per year"*. The policy outlines the detailed procedures for carrying out such an audit. Such audits would allow the Chief Probation Officer to assess whether Community Corrections policies are being applied consistently and appropriately by the probation officers located throughout the Province. We were informed by an official of the Community Corrections Branch that these operational audits are not being performed. In fact there have been no regular operational audits completed since the Community Corrections Information System was introduced in 1996.

3. Electronic Monitoring

The electronic monitoring program was started in 1994. This program allows offenders to serve part of their sentence in the community. The draft policy on electronic monitoring states that *" electronic monitoring is a classification option and as such is an alternative means of incarcerating non-violent, medium risk offenders in their own homes"*. It is the Classification Officers in the Institutional Services Branch that assess offenders to determine whether they meet the requirements for the electronic monitoring program These requirements include that each prisoner serve at least one-sixth of their sentence before being eligible for this program and that there be no pattern of violence or sex offences. Community Corrections will review the assessment and provide supervision for offenders placed on the program.

Once an offender has been released from prison and placed on the electronic monitoring program, the Community Corrections Branch attaches one of 33 electronic monitoring devices to the person that allows for 24 hour surveillance by the probation officers.

To evaluate the adequacy of the policies and procedures in place for electronic monitoring and to determine whether the policies were being followed we selected a sample of 11 offenders from the population of electronic monitoring expirations and from those currently on electronic monitoring. The results of our examination indicated the following:

- 3 of the 11 cases examined were rated as high risk offenders with 1 of the 3 cases disclosing a history of domestic violence. This is contrary to the Department's draft policy which states that only medium and low risk offenders would be accepted for the electronic monitoring program. As a result of this finding, we asked for a report on all offenders that had been on the electronic monitoring program from its inception in 1994 to 31 March 2000. We found that of 478 offenders who had been on this program, 186 were classified as high risk. Furthermore, as at October 2000 we found that there were 6 offenders on this program even though they had been classified as high risk.

- The draft policy on electronic monitoring requires that a home visit be made to the offender's residence to assess appropriateness of the home environment. In one of the 11 cases examined, there was no record of a home visit to assess the home environment in either the hard copy case file or in the electronic file.

- The requirement for a minimum of 2 visits per 8 day period supplemented by a telephone check or collateral check was not followed consistently throughout the entire electronic monitoring period for any of the 11 case files examined.

- In 4 of the 11 files examined, instances were found where the offender was in violation (e.g. alcohol consumption or not attending specific learning resource programs) of conditions of the temporary absence permit but remained on the electronic monitoring program. It is entirely at the discretion of the probation officer as to the tolerance observed regarding a violation of the conditions of the program. Punishment can range from a withdrawal of privileges to the suspension of a temporary absence and a return to the correctional facility. The Department does not maintain statistics regarding the number of violations which did not result in a return to incarceration.

While details of all violations are kept in offender files, the Community Corrections Branch can only provide statistics on violations that resulted in a return to jail. As of October 2000, the Community Corrections Branch could provide the following statistics on releases from the electronic monitoring program which includes those offenders who were returned to jail.

Figure 3

Community Corrections
St John's Region
Releases from Electronic Monitoring
1994 - 2000 (October)

Reason for Release	Number
Expired	308
Parole	34
Jail (Violation)	24
Jail (Voluntary)	2
Total	**368**

Source: Community Corrections Branch

The violations committed by the 24 who returned to jail included not staying away from alcohol, being away from the residence without permission or committing a new crime (e.g. break and enter).

3.23 Community Corrections

The Community Corrections Branch has 33 electronic devices that they lease at a cost of $3,825 per month. Section 8 of the draft policy outlines the management and control procedures that apply to the electronic monitoring equipment used by the Branch in the operation of this program. An analysis of the 33 monitoring devices in service at the time of our review disclosed the following:

- There is a requirement that Community Corrections keep an inventory system to record the status and location of all electronic monitoring devices. In October 2000 we conducted an inventory count. We accounted for 13 devices in storage at the St. John's Office and 11 in use. The Branch could only speculate that the remaining 9 devices were located at another regional office or with the police but had no documentation available as to the actual location.

- The last inventory completed on electronic monitoring equipment by the Branch was 31 August 2000. At that time 2 of the monitoring devices could not be located. We reviewed this documentation in October 2000 and there was still no indication as to whether this discrepancy had been resolved.

- The draft policy on electronic monitoring requires that data be backed up daily. However, our review disclosed that data is only backed up every 3 or 4 days.

While there are 33 electronic monitoring devices available, the Community Corrections Branch has not used anywhere near this level in years. At one time the Community Corrections Branch had 50 monitoring devices on hand but because of low demand 17 units were returned. Figure 4 provides average usage for electronic monitoring for the period 1996-97 to 2000-01.

Figure 4

Community Corrections
Electronic Monitoring Usage
31 March

Year	Average Daily Usage	Number of Units Leased
1997	21	33
1998	17	33
1999	18	33
2000	14	33
2001	17	33

Source: Community Corrections Branch

The goal of the electronic monitoring program as outlined under the draft policy on electronic monitoring is "*to provide a humane, safe and cost effective alternative to formal incarceration that is capable of reducing the negative effects of custody on offenders and their families while at the same time providing the necessary safeguards to maintain public safety. Offenders will participate in appropriate intervention programs through a mandatory attendance requirement*". As indicated in Figure 5, the Department undertook an analysis of the cost of the electronic monitoring program as a starting point to determine whether the program was cost effective.

Figure 5

Community Corrections
Electronic Monitoring Costs
31 March

	2000	1999
Salaries	$76,226	$74,700
Equipment Rental	47,785	58,051
Learning Resource Program	158,117	164,986
Travel, communications, supplies and rent	18,725	18,584
Total	**$300,853**	**$316,321**
Average Daily Usage	14 units	18 units
Per Diem	$59	$48

Source: Community Corrections Branch

As this figure indicates, the average daily cost of maintaining an offender on this program is $59 per day or $22,000 per year. This compares favourably with maintaining an offender in custody at an average annual cost exceeding $57,000. However, our review indicated that the institutions are not operating at full capacity and therefore in determining the cost of the program, it is the incremental cost of maintaining an offender in the institution which must be compared with the cost of the electronic monitoring program. Our review indicated that the incremental cost of maintaining offenders in an institution is less than the cost to have offenders on the electronic monitoring program. However, in addition to the cost of the program, consideration has to be given to the rehabilitative aspect of each option.

In May 1999, the Solicitor General of Canada released a report on Electronic Monitoring in Canada. Newfoundland, along with two other provinces which offer the program, was reviewed for this report. The conclusion was that the electronic monitoring programs had no greater impact on recidivism than probation.

We do know that the Department of Justice has not been able to place as many offenders on electronic monitoring as they anticipated when the program was set up in 1994. In fact, numbers are declining each year.

In summary, the Department is violating its own policy for eligibility to the electronic monitoring program by placing offenders assessed as high risk on the program.

4. Conditional Sentences

A conditional sentence is a sentencing option imposed by a judge as an alternative to incarceration. The conditional sentence order provides for offenders to serve an incarceral sentence in the community rather than in custody for a maximum period of two years less one day. This option only became available in 1996 as a result of Federal legislation.

The Community Corrections Branch has the responsibility of supervising conditional sentences. Offenders given conditional sentences run the full gamut from low risk offenders to high risk offenders including sex offenders or those guilty of major assault. Information at the Department for 1999-00 indicated that conditional sentences were given to 18 offenders of sexual assault, 6 offenders of sexual abuse, and 25 offenders of major assault.

Probation Officers must assess the risk level of offenders sentenced to a conditional sentence to determine frequency and type of contact and appropriate programs to assign as they do with offenders on probation. Supervision levels for conditional sentences are the same as that for probation, high - bi-weekly, medium - monthly and low - administratively inactive.

We selected a sample of 13 offender files (10 assessed as high risk and 3 assessed as medium risk) from the St. John's region to determine whether the required contact was performed. In 12 of the 13 files examined the minimum contact requirements were not met consistently over the period of the sentence.

In addition, 10 files were examined to determine whether the risk assessment made was appropriate given the crime committed. In 8 cases the risk assessment produced by the computerized risk assessment system was appropriate. However, in the remaining 2 cases the risk assessment produced by the system was considered to be inappropriate and an override was performed by the Probation Officer to increase the risk assessed. Seven of the 10 files were from the St. John's region and were examined to determine whether a reclassification pertaining to level of risk was completed as required by policy. Our review indicated that 1 file did not require reclassification since it had been originally assessed as low risk and that none of the 6 remaining files had the required reclassification completed.

Community Based Programs

The Community Corrections Branch provides programs to offenders to assist with their safe reintegration into society and to reduce the risk of re-offending. There are both group and individual counseling offered in such core program areas as criminal behaviour, anger management and substance abuse. As well, one group session per year is held in the specialized areas of male batterers and sex offenders. Community Corrections has two contracts in place; one for the operation of the Learning Resources Program ($356,000) in St. John's and one for the West Coast Council - Community Based Intervention Program ($100,000) on the west coast of the Province.

Our review of the Learning Resources Program ($356,000) indicated the following:

- A senior official of the Department of Justice has indicated that the contract for the Learning Resources Program commenced in 1994 and has been renewed on an annual basis up to and including the 2000-01 fiscal year. There were no proposal calls on these contracts and they have not been approved by Cabinet as required by Government's policy on the hiring of consultants.

- This program started in response to the requirement that offenders placed on the electronic monitoring program attend mandatory intervention programs. In 1996 a consultant reviewed the program to assess its quality and expressed the opinion that reductions in recidivism should be in the 15% to 25% range and that further assessments should be carried out to provide further evaluations. In 1999, the Solicitor General of Canada examined the Learning Resources Program in conjunction with the Province's electronic monitoring program to assess what effect these programs have had on recidivism. It was concluded that the Learning Resources Program had a positive effect on recidivism when directed at high risk offenders. No further evaluations have been completed.

- Instances were identified where the minimum number of contracted hours were not provided. For instance, the contracted hours for 1999-00 for the Intermittent Sentence Workshops were 168 hours while only 118 hours were provided. In addition, although the contract requires 624 hours of core group programming, only 539 hours were provided.

- Although the contract has been renewed since 1997-98 at the same cost of $356,000, our review indicated that the number of hours of service provided under the contract has been decreasing. For example, in 1997-98 the Department received 2,843 hours, in 1998-99 they received 2,770 hours and in 1999-00 they received 1,936 hours.

Our review of the Community Based Intervention Program that cost $100,000 indicated that although there was a public call for proposals in 1996-97 when the contract was originally awarded, there have been no further proposal calls and the contract has been renewed on an annual basis ever since. In addition, the contract was not approved by Cabinet as required by Government policy.

Management Information Systems

The Community Corrections Branch uses a computerized system in its operations referred to as the Community Corrections Information System. This system is a database that contains information on offenders under the supervision of the probation officers. Our review of this system indicated the following:

- Each region has its own stand alone system which cannot be accessed from any other region including Head Office. Therefore, the Chief Probation Officer is unable to use the system to monitor activity within the regions. Once a year, subsequent to year end, the IT Division of the Department of Justice does a province-wide consolidation of all the regional systems. Information in this consolidation is used to prepare statistics for Adult Corrections Division's Bi-annual Report.

- There are limitations within the system in that information entered into the system cannot be changed even if entered incorrectly without obtaining the assistance of the IT Division at the Department of Justice. This inflexibility can result in inaccurate information being maintained within the system.

- The system has information common to another Departmental system i.e. the Provincial Corrections Offender Management System which is used by the Correctional Institutions throughout the Province as well as the system used by the Courts. However, since these systems are not linked, complete information on an offender is not readily available and duplicate entry of the same information results in inefficiencies.

Program Reporting

In addition to computerized systems, the Adult Corrections Division prepares a Bi-annual Report which is submitted to the Minister of Justice highlighting the activities of the Division. The Department intends to prepare annual reports but because preparation is not timely, they turn into bi-annual reports. The report covering the period 1 April 1997 to 31 March 1999 was submitted 1 March 2000. No further reports have been completed.

Recommendations

The Community Corrections Branch should continue in its efforts to review and update its policies and procedures. These policies and procedures should be complete and circulated to all probation officers.

All policies and procedures in place at Community Corrections should be adhered to. This would include probation officers having contact with offenders at the required frequency.

Probation officers should prepare required reclassification forms to support the action taken regarding the monitoring and contact required for offenders.

The system being used for risk assessment should be corrected so that it produces results consistent with Departmental policy and thus eliminate the need for probation officer overrides.

The Chief Probation Officer should resume operational audits to monitor whether probation officers are performing according to set standards.

The electronic monitoring program should be reviewed to determine whether it is cost effective and whether the Department's objectives are being met.

The Department should comply with Government policy regarding the acquisition of professional services. The Department should also ensure that it receives the services outlined in the contract.

The Department should review its computerized systems with a view to having necessary management information available to adequately manage its programs and eliminate inefficiencies associated with the entry of duplicate information.

The Adult Corrections Division should endeavour to prepare its annual report on a timely basis.

Department's Response

The Department will continue its review and updating of policy and procedures manuals and ensure their circulation to all staff.

The Chief Probation Officer is conducting operational audits to ensure compliance with policy and, in particular, adherence to the policy pertaining to contact frequency standards and the supervision of high-risk offenders.

The Department is intent on ensuring that offenders assessed to be a high risk to re-offend are supervised more intensively than those deemed to be lower risk. When an offender's risk level is reclassified, the appropriate documentation will be completed to verify the change.

It is well-accepted in Canadian correctional jurisdictions that the exercise of a probation officer over-ride in assessing the risk level of a specific offender is a legitimate clinical practice.

The Chief Probation Officer has already resumed the practice of conducting operational audits of regional offices.

Even though 2 evaluations of the Electronic Monitoring initiative revealed that the community-based program component did significantly reduce the rate of re-offending for higher risk offenders, follow-up evaluations will be conducted. As one part of this exercise, an additional use for EM units is now being considered.

The Department will comply with Government policy regarding the acquisition of professional services and will ensure that all services are delivered as per the service contract.

3.23 Community Corrections

The installation of the new Provincial Corrections Offender Management System (PCOMS) will eliminate much duplication by integrating the custodial and community offender databases.

It is acknowledged that the Annual Report for Corrections and Community Services is an important document and should be prepared on a more timely basis.

3.24 Royal Newfoundland Constabulary - Firearms Review

Introduction

The Royal Newfoundland Constabulary was established in 1871. The mission of the Royal Newfoundland Constabulary is to work with communities in Newfoundland and Labrador to foster safe communities by providing quality, professional, accessible, timely and fair police services to all. The Royal Newfoundland Constabulary is responsible for policing three regions of the Province - the North East Avalon, Corner Brook and Labrador West. The population of these regions is approximately 205,000 (1996 census). In providing these services, the Royal Newfoundland Constabulary currently employs 304 police members and 82 civilian staff.

On 2 December 1997, a Select Committee of the House of Assembly was appointed to enquire into the arming policy of the Royal Newfoundland Constabulary, and report its findings to the House of Assembly by 31 March 1998. The Select Committee conducted research, viewed presentations by interested parties and held public hearings. The Committee tabled its report to the House of Assembly on 31 March 1998 which recommended that the arming policy of the Royal Newfoundland Constabulary be amended to permit its members on operational duty to wear sidearms as part of their regular uniform.

The Committee further recommended that:

- the Chief of Police have discretion in the administration of the policy including discretion in assigning officers to operational duty;
- police officers' sidearms be stored in a secure locker at the station when they are not on duty;
- a firearms audit acceptable to the Minister of Justice be performed annually and submitted to the House of Assembly; and
- the arming policy be reviewed at the end of five years by a Select Committee of the House of Assembly.

As a result of the recommendations of the Select Committee on the Arming Policy of the Royal Newfoundland Constabulary, members on operational duty were permitted to wear sidearms commencing 14 June 1998. To provide specific direction to members on the control and usage of firearms, a revised Firearms Policy was also issued at this time. Figure 1 outlines the number of firearms maintained by the Royal Newfoundland Constabulary as of August 2001.

Figure 1

Royal Newfoundland Constabulary
Number of Firearms

	St. John's	Corner Brook	Labrador West	Total
Handguns	334	49	24	**407**
Shotguns	40	6	8	**54**
Rifles	99	16	6	**121**
Total	**473**	**71**	**38**	**582**

Source: Royal Newfoundland Constabulary Inventory System

Scope and Objectives

One of the recommendations of the Select Committee on the Arming Policy of the Royal Newfoundland Constabulary was that a firearms audit acceptable to the Minister of Justice be performed annually and submitted to the House of Assembly. To comply with this recommendation, the Chief of Police has again requested my Office to conduct an annual audit of firearms in 2001. In November 2001 we completed our third annual review. The objectives of the review were to:

- Determine whether the Royal Newfoundland Constabulary has adequate systems in place to record, monitor and secure its firearms inventory. This included determining, as recommended by the Select Committee, that sidearms be stored in a secure locker at the station when members are not on duty.
- Determine whether the revised Firearms Policy covered all relevant issues pertaining to the use and control of firearms.
- Determine whether the Royal Newfoundland Constabulary has adequate procedures to monitor members' compliance with the revised Firearms Policy and where appropriate, test compliance with this Policy.

Conclusions

Control over Firearms and Ammunition

In 1998, the Royal Newfoundland Constabulary were permitted to wear firearms as part of their regular uniform. The Select Committee of the House of Assembly which recommended the new arming policy also recommended that a firearms audit be performed annually and submitted to the House of Assembly. As a result, this is our third annual firearms audit.

In our two previous audits we reviewed the firearms policy of the Royal Newfoundland Constabulary and reported a number of issues which had to be addressed. Since the policy was new, we expected that deficiencies would be identified in the early years and that the Royal Newfoundland Constabulary would strengthen its processes in response to the deficiencies that we had identified. Given the serious repercussions that could result from the use of firearms, it is critical that the Royal Newfoundland Constabulary have adequate systems in place to protect the interests of both the Royal Newfoundland Constabulary members and the public.

The Royal Newfoundland Constabulary has established policies to provide for the management and control of its firearms and ammunition. The Constabulary has, for the most part, made improvements since 1998 regarding the management and control of its firearms and ammunition. However, our review for 2001 identified a number of issues which should be addressed. The most serious issues are as follows:

- We identified 10 members of the Royal Newfoundland Constabulary who had each others firearms stored in their firearm locker. These are very serious infractions. Should a firearm be discharged, there is a possibility that the discharging of the firearm could be associated with an incorrect Royal Newfoundland Constabulary member.

- Grips are being installed on firearms making it impossible to readily read the serial number. As a result, during inspections it is not possible to check serial numbers and agree it to Royal Newfoundland Constabulary records to ensure that the correct member is in possession of the correct firearm. For example, we removed a few of these grips and identified 1 instance (included in the 10 above) where the serial number on the firearm confirmed that a Royal Newfoundland Constabulary member did not have the firearm which has been signed out to them. It is a concern that members with a firearm other than that assigned to them could go undetected during monthly firearm locker inspections.

- Although Royal Newfoundland Constabulary policy requires that all members receive, on an annual basis, a requalification for the use of firearms, we found that 114 members had not received the required training.

Findings and Recommendation

Inventory Management

The Royal Newfoundland Constabulary has developed inventory control procedures to provide for the proper management of its firearms. These policies include such areas as the assignment of responsibility for control of weapons, the maintenance of a perpetual inventory system, the requirement for annual inventory counts and reports thereon, and procedures to update the inventory system for acquisitions, transfers, dispositions and any required adjustments.

In our 2000 review of inventory controls we concluded that there are still weaknesses in this area that require improvement. Our review of this area for 2001 indicated the following:

- Although the inventory system is a perpetual system (i.e. it is supposed to be continually updated), we determined that required adjustments, including additions, dispositions or internal re-assignments of firearms and ammunition, are not always made on a timely basis. As a result, information on firearms and ammunition inventory is not always accurate and up to date. For example, during our firearm locker inspections and an inventory count that we conducted in July/August 2001 we found errors in the assignment of firearms to members.

- We tested the accuracy of the inventory listings for firearms and ammunition in St. John's and Corner Brook by selecting almost all physical inventory items and comparing them to the inventory system. We also selected almost all of the items from the inventory system to ensure that the firearm was located where listed in the inventory system. During our review we found that the inventory system was not accurate as outlined by the following instances:

    - There were 6 instances where firearms were located in a different physical location than recorded in the system. These firearms were, however, located in secure areas within Royal Newfoundland Constabulary facilities.

- There were 2 instances where members had firearms that were not on the inventory system. These firearms belong to the manufacturer but are being used by members of the Royal Newfoundland Constabulary while their assigned firearms are in for repairs.

- There are 13 types of ammunition in the inventory system and we reviewed all 13 at St. John's. We determined that 5 physical counts did not agree to what was recorded in the inventory system and the differences could not be readily accounted for.

- The ammunition transferred to the Corner Brook Division is not recorded in any inventory system at this location for control purposes. Although there is a record in St. John's of how much ammunition was transferred to this Division, there is no system to account for the ammunition that was received.

Firearms Policy

The Royal Newfoundland Constabulary has a Firearms Policy to provide specific direction to its members on the control and usage of firearms. Our review included a comparison of this policy with policies of other Canadian police jurisdictions. These jurisdictions included Halifax, Toronto Metro, Winnipeg, Brandon, Edmonton, Calgary, Vancouver, and New Westminster. We also reviewed procedures used by the Royal Newfoundland Constabulary to monitor members' compliance with the Firearms Policy which include inspections of firearms and firearms storage areas, review of reports prepared by members who have drawn firearms, and internal quality reviews over firearms. Where appropriate, we also tested compliance with this policy. Our review of these areas indicated the following:

1. Adequacy of Policy

Our review indicated that, in general, the revised Firearms Policy of the Royal Newfoundland Constabulary is comparable to that of the other Canadian police jurisdictions and covered similar issues pertaining to the use and control of firearms.

2. Compliance with Policy

A review of documentation maintained by the Royal Newfoundland Constabulary in monitoring compliance with the Firearms Policy, discussions with Royal Newfoundland Constabulary officials and testing of compliance with this Policy by my Office indicated that members are not always complying with the Firearms Policy. For example:

- The Firearms Policy requires unloaded firearms to be secured in the members' personal firearms storage lockers at Royal Newfoundland Constabulary facilities or in other approved locations when the member is not on duty. To monitor compliance with this policy, the Inspections Officer or his designate at other detachments conducts a monthly inspection of the firearms storage lockers. Any infractions with this policy are reported to the District Inspectors or the Divisional Commanders to follow up with the members.

  A review of these monthly inspection reports indicate infractions such as a firearm and/or ammunition not stored in the locker even though the member was not on duty, missing pepper spray, stored firearms which were loaded, and the storage of personal articles in the firearms storage locker. We were informed that, in instances where infractions were identified by the Inspections Officer, appropriate action was taken, including disciplinary action, where necessary.

  As part of our review, we attended the July 2001 monthly inspection for the St. John's detachment and its district office in Mount Pearl. During this inspection, we observed 25 infractions of the firearms policy. For example:

  - There were 10 members who had each others firearms stored in their lockers. These are very serious infractions and action should be taken immediately to ensure that members have the firearm which has been signed out to them.

  - During the audit we identified at least 25 firearms with a grip installed making it impossible to readily read the serial number. We removed a few of these grips during testing and found that in 1 instance (included in the 10 above) the serial number on the firearm confirmed that the member did not have the firearm which has been signed out to them. It is a concern that members with a firearm other than that assigned to them could go undetected during monthly firearm locker inspections.

  - There was 1 member who had their loaded firearm stored in their firearm locker, contrary to policy.

  - There was a member who had an illegal drug stored in their firearms locker. We were informed that the substance in question was taken from a suspect sometime before this member went on extended leave. An investigation has been completed by the Internal Review Division and the member disciplined. While this member was on leave there were two firearms locker inspections prior to our review; however, the substance was not detected.

  - The amount of ammunition stored in the lockers of 5 members did not agree to the amount of ammunition assigned as indicated by the inventory system. In 4 of the 5 instances there was ammunition missing, while in 1 instance the member had more than the assigned amount.

  - There were 6 members who did not have their pepper spray stored in the locker as required by policy.

  - There were 2 members who had something (i.e. handcuffs and a water bottle) other than the permitted firearm, ammunition, holster, pepper spray or reloaders stored in the locker.

- We also attended an inspection of the firearms lockers in Corner Brook in August 2001. We observed 3 infractions. There were 2 members who did not have their pepper spray stored in their firearm locker and 1 member who had ammunition missing.

- Royal Newfoundland Constabulary policy requires firearm storage lockers be inspected on a monthly basis. Our review indicated that for one month in the past year, this inspection was not done in St. John's (August 2001), Mount Pearl (August 2001), Corner Brook (July 2001) or Labrador West (August 2001).

  Royal Newfoundland Constabulary policy also requires that firearms be inspected by the Inspections Officer per a schedule approved by the Chief of Police. The policy now requires that all personnel and equipment be inspected a minimum of twice per year by the Inspections Officer. Such inspections were carried out in the Fall of 2000 and again during the Summer of 2001. The report on the inspections completed during the summer of 2001 was not issued to the Executive until late November 2001.

- Use of force training consists of a basic one week use of force program plus four modules which are to be offered on a continual basis. Module 1 covers firearms, module 2 covers defensive tactics/handcuffing techniques/baton, module 3 covers tactical room entries/weapons retention and module 4 involves a lecture on the use of force continuum. Use of Force Policy requires that members complete module 1 annually and that the remaining three modules be completed on a cyclical basis over a three year period. During 2001, all members were required to complete modules 1 and 2.

  The Royal Newfoundland Constabulary maintains a database to track training in use of force. We reviewed the information contained in this database as of 16 November 2001. Our review indicated the following:

  - This database contained the names of 314 members of which 10 had left the Force leaving 304 current members.

  - 18 of the 304 members in the database do not receive any sort of use of force training for medical reasons. None of these members have been issued a firearm. Of the remaining 286 members, 148 have completed module 1 in the required one year time frame, 24 are not yet due for training and the remaining 114 did not receive firearms training in the required one year time frame.

  - 3 of the 286 completed the basic one week use of force training with another police force (former employer). The Royal Newfoundland Constabulary has no documentation on file to support this.
  - 235 of the 286 members had completed module 2 of the use of force training thus far in 2001.

  As a result, the Royal Newfoundland Constabulary is not complying with its policy for the use of force training modules 1 and 2 and 114 members have therefore not requalified in the use of firearms.

- The Firearms Policy requires that one 12 gauge shotgun be contained in each of the 8 supervisory vehicles used by a Non-Commissioned Officer (Sergeant in charge of shift) and the Operational Supervisor (Staff/Sergeant in charge of a shift) for use in responding to certain threats. These firearms are to be removed at the end of each shift or during prolonged absences from the vehicle. Four vehicles used by the Non- Commissioned Officers in St. John's have been modified so that the shotgun can now be secured. However, the remaining 4 vehicles have not been modified to accommodate securing the shotgun. Therefore, in these instances the firearm will generally be transported from headquarters to the required site by a Non-Commissioned Officer.

- The Firearms Policy requires members to use loading/unloading ports that are located in firearms storage areas for the loading and unloading of firearms. During attendance at the inspection of firearms storage lockers, we observed one member loading their firearm without using this port.

- The Firearms Policy also requires that members be fully versed in the Use of Force Guidelines as outlined in the Use of Force Policy. These Guidelines provide guidance with respect to when it is appropriate to use force and the level of force required to be used in various situations. The Use of Force Policy requires that any time a member uses any type of force from simple restraint to discharging a firearm, a Use of Force Report must be filed.

These reports are reviewed by the member's immediate supervisor, the District Inspectors and/or Divisional Commanders, and the Use of Force Review Board which has been established by the Royal Newfoundland Constabulary. Instances of force may also be reviewed by either the Public Complaints Commission or the Royal Newfoundland Constabulary's Internal Review Division upon the receipt of a complaint from a member or the general public.

Our review of this area indicated the following:

- We have been informed that there were no complaints received by the Public Complaints Commission regarding use of firearms by members during the period 1 November 2000 to 31 October 2001.

- There were three complaints received by the Internal Review Division during the period 1 November 2000 to 31 October 2001 resulting from firearm locker inspections. All three of these were internal and resulted from infractions of the Royal Newfoundland Constabulary policy on firearms. These included, repeated infractions of firearm policy, a firearm stored loaded and the presence of an illegal drug in a member's firearm locker that was supposed to be stored in the Property Room. All of these complaints have been investigated and two were found to be with merit resulting in discipline to the member.

- A review of the Use of Force Reports indicated that there were 268 reported incidents of force between 1 November 2000 and 31 October 2001. Of these 268 incidents, 19 related to firearms, all of which involved drawing and/or pointing a firearm at a person. However, the review of the Use of Force Reports was not complete since the Royal Newfoundland Constabulary have been unable to locate reports prepared by members in Patrol Division for November and December 2000.

3.24 Royal Newfoundland Constabulary - Firearms Review

- In May 2001, the Royal Newfoundland Constabulary commenced using a modified Use of Force Report. The report now includes a separate place to indicate whether handcuffs were used and provides space for the member, supervisor and District Commander to sign. Most Use of Force Reports now include the approval of the supervisor and/or the District Commander. However, the District D in Mount Pearl continues to use the old form.
- Prior to December 2000 Royal Newfoundland Constabulary policy required that all Districts prepare monthly statistics on the use of force. The current policy now only requires an annual summary of use of force statistics although most Districts continue to prepare the monthly summaries. The monthly summaries provide useful information and should be prepared for all Districts.

Recommendation

The Royal Newfoundland Constabulary should take appropriate action to address the issues identified in this Report.

Royal Newfoundland Constabulary's Response

The Royal Newfoundland Constabulary acknowledges the Auditor General's report and has taken appropriate actions to address the issues identified in this report.

The Royal Newfoundland Constabulary through research and development has established policy to ensure control over firearms and ammunition. This organization on a continuous basis through training, inspections, and reviews ensures that this policy is adhered to and when non-compliance is discovered appropriate corrective action is taken.

The Royal Newfoundland Constabulary continues to have a progressive attitude towards the Use of Force training and we will continue in the future to ensure all members are trained for their safety and the safety of the general public they serve.

The Royal Newfoundland Constabulary acknowledges the fact that there were no complaints received by the Royal Newfoundland Constabulary Public Complaints Commission regarding use of firearms by members during the period November 1st, 2000 to October 31st, 2001.

Inventory Management

The Royal Newfoundland Constabulary concurs updates were not always made on a timely basis due to operational requirements; however, the Royal Newfoundland Constabulary will ensure the required adjustments are made in an appropriate time frame.

The findings that were identified by the Auditor General on the RNC Armory Inventory Tracking System and the firearms storage areas have been corrected. All Divisions within the Royal Newfoundland Constabulary now maintain an inventory tracking system to account for firearms inventory.

Firearms Policy - Compliance with Policy

As identified in the Auditor General's Report, the revised Firearms Policy of the Royal Newfoundland Constabulary is comparable to that of other Canadian Police jurisdictions and provides specific direction to its members on the control and usage of firearms. The Royal Newfoundland Constabulary conducts continuous inspections and where any non-compliance of policy is identified appropriate action is taken including disciplinary action where necessary.

Use of Force Training

The Royal Newfoundland Constabulary policy on Use of Force Training is being reviewed to ensure adequate training standards meet the needs of the Royal Newfoundland Constabulary and the general public. The current policy calls for training on an annual basis with its intent to be the calendar year from January to December of each year; however, the Auditor General interpreted the policy to be annually - twelve months from the previous training. The Executive of the Royal Newfoundland Constabulary is reviewing the current training schedule in an attempt to have all members trained within a twelve-month period allowing a smaller margin of time frame than the current calendar year.

Required Use of Force Training for the year 2001 was completed by all members.

3.25 Prospectors and Industry Assistance Program

Introduction

The Mineral Development Division within the Department of Mines and Energy is responsible for the technical monitoring and analysis of the mining industry, the development and implementation of mineral policy, evaluations of potential mining properties, development and enforcement of the *Mining Act* and management of incentive programs for exploration and development.

The mineral development program budget has increased from $3.6 million for the year ended 31 March 2000 to $7.7 million for the year ended 31 March 2001. The increase is attributable to an additional $4.6 million provided for site reclamation at the Hope Brook Mine. The remaining $3.1 million includes $2.3 million for the Prospectors and Industry Assistance Program and $0.8 million for the operational costs of the Division.

We reviewed the Prospectors and Industry Assistance Program which consists of three main components as follows:

- The **Junior Company Exploration Assistance Program** is designed to encourage junior exploration companies and local prospectors to conduct advanced exploration in the Province and carry mineral prospects to a more advanced stage. Budgeted expenditures for the year ended 31 March 2001 were $1.8 million, with actual expenditures totalling $1.0 million. It is also intended to encourage and promote a greater involvement by local entrepreneurs in the mining industry. Government funding is used to pay 50% of approved eligible costs, to a maximum of $100,000 per undertaking, on advanced mineral exploration projects by individuals or junior mineral exploration companies registered to do business in the Province.

- The **Prospectors Assistance Program** provides training and direct financial support to individuals and is designed to encourage and promote development of the mineral prospecting industry and the discovery of wealth generating mineral deposits. Budgeted expenditures for the year ended 31 March 2001 were $250,000, with actual expenditures totalling $230,000. Direct financial assistance is provided to eligible prospectors involved in independent mineral exploration activities. Approved projects are supported by grants up to $4,000. Additional assistance may be available for credible, newly discovered prospects.

- The **Dimension Stone Incentive Program** provides funding in support of quarry and plant development, infrastructure, plant equipment purchases, and services of a contract geologist. Budgeted expenditures for the year ended 31 March 2001 were $250,000, with actual expenditures totalling $170,000. The Program provides for 50% of approved eligible costs, to a maximum of $100,000 per project.

Scope and Objectives

The objective of this review was to assess whether there are adequate systems and procedures in place at the Department of Mines and Energy to administer the Prospectors and Industry Assistance Program.

Our review included:

- determining the nature and objectives of the Program;
- determining whether Program guidelines and related policies and procedures consistent with Program objectives have been developed and complied with; and
- assessing the monitoring and reporting processes in place over the Program.

In order to achieve an understanding of the Program, and to provide a basis for completing the review, we conducted interviews with key personnel at the Department of Mines and Energy, and also conducted a review of relevant information at the Department, including related Divisional planning information, guidelines, policies and procedures, project selection committee assessments, contracts, and monitoring and reporting activities. Based on this understanding, we selected a sample of expenditures and evaluated whether there was compliance with applicable guidelines, policies and procedures, and contracts as they were presented to us. Our review included the fiscal years ended 31 March 2000 and 31 March 2001.

Conclusions

- **Weaknesses were identified with respect to project controls relating to: assessments of project proposals; monitoring of approved projects; evaluations of completed projects; and review of support for claimed project expenditures.**
- **The database maintained by the Department is incomplete. Project information is not being adequately tracked for project and Program monitoring purposes.**

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3.25 Prospectors and Industry Assistance Program

- Our review identified irregularities with respect to approved projects for one applicant. This applicant had three projects approved under the Dimension Stone Incentive Program and two projects approved under the Junior Company Exploration Assistance Program. A total of $190,000 was approved for these contracts.

  A review of projects approved for this applicant revealed the following:

  - inadequate application form review and assessment;
  - inadequate quotations obtained in support of proposed expenditures, including serious concerns expressed by the Department relating to authenticity of quotations presented by the applicant. These concerns related to an application for project #3 which was received from the applicant in July 2000. Subsequent correspondence from the Department dated in July disclosed that this application could not be processed because the tendering process was *"flawed/incomplete"*. In requesting the required 2 quotes for goods/services, the applicant indicated that quotation requests had been faxed to two unrelated companies. However, the Department determined that one company did not exist while no quotation request had ever been forwarded to the other company by the applicant as had been represented in the application. Despite the serious concerns expressed by the Department relating to authenticity of information provided by the applicant, the Department subsequently approved $44,000 in funding for this project;
  - inadequate site visits completed by the Department;
  - inadequate reporting by the applicant;
  - inadequate project evaluations completed by the Department;
  - lack of inspection or audit of the applicant's records; and
  - inadequate support for claimed expenditures.

3.25 Prospectors and Industry Assistance Program

Findings and Recommendations

1. Program Management

The procedures to be followed for all three Program areas are similar and start with the receipt of an application or proposal from the applicant. The application is reviewed and assessed by project selection Committee members with contracts prepared for approved projects. At various points throughout the project's term, site visits are to be conducted by the Department and reports are to be submitted by the applicant. Payment of eligible costs are made by the Department at various stages. At the end of the project, a project evaluation is to be completed by the Department.

There were a total of 262 projects approved during the two year period to 31 March 2001. We reviewed 45 of these projects. In addition, we reviewed 10 of the 81 projects we determined were rejected during that same period.

Figure 1 provides an overview of the 45 approved projects selected for review.

Figure 1

Prospectors and Industry Assistance Program
Sample Items Selected
For the Two Year Period Ended 31 March 2001
($ Millions)

Program Area	Total Expenditures	Total Projects	Projects in Sample	Expenditures in Samples
Junior Company Exploration Assistance Program	$ 2.4	48	15	$ 0.6
Prospectors Assistance Program	0.5	204	20	0.1
Dimension Stone Incentive Program	0.3	10	10	0.3
	$ 3.2	262	45	$ 1.0

Source: Departmental Records

The Department's database was used to select our samples. The database contains information on the three Program areas. This information generally consists of such information as applicant identification, property location, commitment amounts and payment amounts.

The results of our review of the 45 sample items are outlined below:

(a) Application

The departmental section of the Prospectors Assistance Program application outlines such information as to whether applicant references were checked and whether the application was approved and if so, the amount approved. This documents key steps in the application assessment process. The Department did not complete this section of the application for any of the projects reviewed.

There was no standard application form or proposal format for Junior Company Exploration Assistance Program applicants to follow in submitting funding requests to the Department. The lack of a standard makes it difficult for the Department to ensure all required information needed to assess the funding request is provided. Proposals received were not always well documented.

The departmental section of the Dimension Stone Incentive Program application indicates whether the application was approved, and whether additional information was requested. This part of the application was not completed for any of the 10 projects reviewed.

(b) Assessment

Application assessment forms were not always completed by each of the committee members and not all assessments were dated or signed. As well, in cases where concerns were expressed by Committee members, the files did not always indicate whether the concerns were satisfactorily addressed before the application was approved. For example, in one of the approved Junior Company Exploration Assistance Program projects, three of the four Committee members completing the assessment rejected the application as submitted, while the fourth stated it was a "*Good project- meets eligibility criteria for JCEAP. Approve.*" Although three of the four members rejected the application, it was approved and funding in the amount of $8,000 was provided.

(c) Contracts

Contracts set out the responsibilities of the applicant and the Department and establish the terms and conditions for funding. A Schedule "A" is to be included with each contract which documents the specific responsibilities of the project applicant, including a definition of the proposed project, the areas in which prospecting will be undertaken, and the schedule for work to be completed. Two of the 20 Prospectors Assistance Program projects reviewed had no contracts on file and for one project, the contract was not signed by the applicant. None of the 20 projects had a Schedule "A" in the contract agreement outlining the responsibilities of the applicant. Contracts and Schedule "A" were on file for projects reviewed under the other two program areas.

Contracts for the Junior Company Exploration Assistance Program and Dimension Stone Incentive Program projects require the applicant to invite at least two quotations in support of proposed project costs exceeding $5,000. In 14 of the 25 projects reviewed under these two Program areas, there was no evidence on file of the required two quotes. In 6 of the 14 cases, the applicants purchased items totalling approximately $400,000 from companies related to the applicant. In 2 of the remaining 8 projects, internal invoices were provided as support for payments.

(d) Monitoring

The Department provides for site visits to be conducted for all projects at various points over the project's term; however, site visits were not conducted for 33 of the 45 projects reviewed.

Prospecting Report Forms are required for monitoring Prospectors Assistance Program projects. In 4 of the 20 cases reviewed, there was nothing on file to indicate that the Prospecting Report Forms received from the applicants on completion of the projects were acceptable to the Department.

The project contracts for the Junior Company Exploration Assistance Program and the Dimension Stone Incentive Program require the applicant to submit progress reports and *"...a final, completely documented report..."* providing details on project implementation, logs and analytical information, overall project success, and an outline of future plans.

There were no progress reports on file for 7 of the 25 projects reviewed. The progress reports which were on file were not sufficiently detailed.

There was no evidence of a review of the final reports for 17 of the 25 projects. For the 8 projects that were reviewed, it was unclear if all concerns raised by the Department were adequately addressed.

Project contracts for the Junior Company Exploration Assistance Program and the Dimension Stone Incentive Program provide the Department with the right to examine and audit the applicant's books, accounts and records and the right to inspect and assess progress on the project. Inclusion of such provisions in the project contracts enables the Department to monitor the project and related documentation to assess the success of the project and to provide assurance that requested funding had been appropriately utilized. The Department did not audit any of the 25 projects.

(e) Contract Payments

Project contracts for the Junior Company Exploration Assistance Program and the Dimension Stone Incentive Program require the applicant to submit to the Minister "*...an itemized documentation of all Eligible Costs incurred and paid, together with proof of payment of such Eligible Costs...*"

Eighteen of the 25 applicants did not provide adequate documentation to support claimed eligible expenses. Examples of problems with documentation included invoices that were dated prior to contract date, inappropriate support for payroll expenditures, no evidence of invoices being paid by the applicant, and related company invoices submitted as support for payment.

(f) Project Evaluation

Project evaluations were not completed by the Department for projects under the Prospectors Assistance Program. Such evaluations would summarize the Department's opinion as to the success of individual projects and ultimately could serve to measure success of the overall Program.

(g) Reporting on Performance

There is no annual reporting to the House of Assembly on the objectives and results of the Program.

2. Rejected Applications

A review of files at the Department disclosed there were 81 projects we determined were rejected or cancelled over the period of our review. We reviewed 10 of these projects to determine the reason for rejection. Such reasons included lack of required information being provided by the applicant, the proposal being too vague, and ineligibility of the proposed project. Our review resulted in no issues with the reasons provided by the Department for rejecting these applications.

3. Database

Our review of database information relating to the monitoring and control of projects disclosed that:

- All applications are not being tracked on the database. Details of applications which have been rejected or cancelled were not recorded in the database.
- Project information is not being adequately tracked on the database. Such information includes application date and funding request details, assessment dates and results, approval dates, expected vs. actual dates for receipt of reports and expected vs. actual completion dates. The database also does not track when and by whom projects are evaluated by the Department.
- Although the database does contain an indication of whether a site visit had occurred, details on the site visit, including when the site visit was conducted and by whom are not provided.

Tracking all information relating to applications and projects is important in monitoring Program activity and in assessing the demand for and success of the Program.

4. Specific Concerns with Approved Projects for One Applicant

Our review identified specific irregularities with respect to approved projects for one applicant. This applicant had three projects approved under the Dimension Stone Incentive Program and two projects approved under the Junior Company Exploration Assistance Program for a total of $190,000. Expenditures at the date of audit totalled $157,000. Details of these projects are outlined in Figure 2.

Figure 2

Approved Projects
For the Years Ended 31 March 2000 and 31 March 2001

Project	Application Date	Contract Date	Contract Amount Approved	Amount Paid by Department
DSIP				
1	May 1999	July 1999	$ 50,000	$ 50,000
2	May 1999	July 1999	50,000	50,000
3	July 2000	September 2000	44,000	21,000
JCEAP				
4	June 1999	July 1999	31,000	26,000
5	November 2000	December 2000	15,000	10,000
Totals			$ 190,000	$ 157,000

Expenditures under the Dimension Stone Incentive Program were made under three separate contracts. A review of the related project files disclosed the following:

- Problems were identified in the application, review and assessment of all 5 projects. These included the Departmental section of the application form not being completed, and the approval of an assessment form by one member of the committee with rejection by the other 2 members.

- The contracts between the applicant and the Department require at least two quotations in support of proposed project costs. In four of the five projects, quotes received from the applicant were received from a company related to the applicant. Invoices from the related companies were the primary support for payment for these four projects. Notations were made on the invoices indicating they had been paid; however, no receipts or cancelled cheques were provided to enable the Department to obtain further assurance that payments had in fact been made. This does not meet the requirement contained in the contracts for the applicant to submit to the Minister *"...an itemized documentation of all Eligible Costs incurred and paid, together with proof of payment of such Eligible Costs..."*

- The application for project #3 was received from the applicant in July 2000. Subsequent correspondence from the Department dated in July disclosed that this application could not be processed because the tendering process was *"flawed/incomplete"*. In requesting the required 2 quotes for goods/services, the applicant indicated that quotation requests had been faxed to two unrelated companies. However, the Department determined that one company did not exist while no quotation request had ever been forwarded to the other company by the applicant as had been represented in the application. Despite the serious concerns expressed by the Department relating to the authenticity of information provided by the applicant, the Department subsequently approved $44,000 in funding for this project.

  While an initial site visit was completed for this project, no interim or final site visits were conducted.

  Department officials questioned the expertise of the people preparing the final report for this project. While a geological assessment was requested after the final report was received, the one page "assessment" subsequently received from the applicant was not sufficiently detailed. There was no indication as to whether this assessment addressed the Department's concerns.

- Initial site visits were not completed for four of the five projects. Interim site visits were not completed for any of the five projects. Final site visits were not completed for any of the projects before final payments were made to the applicant.

- Of the $157,000 paid to this company, $134,000 was supported by invoices received from companies related to the applicant.

- For the final site visit conducted for project #1, the Departmental official completing the inspection expressed concern about the future viability of the product which could be extracted from the site. The official concluded that any further work on this site should be carefully reviewed before approval.

- In all five projects, progress reports were either not received or were received after the deadlines established in the contracts. As well, in four of the five projects, final project reports were received after the contract deadlines. The reports that were provided were not detailed.

- Project evaluations were prepared by the Department; however, they were limited in detail provided and were not signed.

- No examinations or audits of the applicant's records were completed even though they are provided for under the Department's contracts with the applicant and also that the Department had encountered significant problems with the applicant.

Recommendations

The Department should ensure that adequate project controls are in place and contracts with applicants are complied with. Specifically the Department should ensure that:

- *Standard proposal/application formats are in place;*

- *At least two quotes for required work are obtained and placed on file before project approval;*

- *Project selection assessments are properly completed;*

- *Progress and final reports are properly prepared, received, and reviewed and are in accordance with the contract;*

- *Project evaluations are properly prepared, signed and dated;*

- *Departmental inspections, audit or independent audits of applicant records are completed as necessary based on defined circumstances;*

- *Site visits are properly conducted; and*

- *Adequate support is received from the applicant relating to project expenditures.*

A complete database of information should be maintained.

Department's Response

The Prospectors and Industry Assistance Program is government's key incentive program for mineral exploration and development in Newfoundland and Labrador. Since inception, the program has continued to attract increased interest from individual prospectors and small and medium sized exploration companies. Overall, the department has received excellent feedback from the mining industry on this program. Given the growing interest in the Prospectors and Industry Assistance Program, the Department of Mines and Energy welcomed the in-depth review completed by the Office of the Auditor General. Upon completion of the review, the Auditor General provided recommendations that centred around enhanced controls and monitoring. The Department of Mines and Energy appreciates the Auditor General's comments and has been working to implement them. It is anticipated that these improvements will strengthen the program to the benefit of both government and industry.

3.26 Newfoundland and Labrador Film Development Corporation

Introduction

The Newfoundland and Labrador Film Development Corporation (the Corporation) was incorporated in October 1997. The purpose of the Corporation is to promote the development of, and to stimulate employment and investment in, the Newfoundland film and video industry by providing financial and other assistance. The Corporation's Board of Directors is appointed by Government.

The Corporation administers an Equity Investment Program (EIP). The objective of this program is to provide production assistance in the form of an **equity investment** to eligible producers for the financing of productions which will provide employment and economic benefit to residents of the Province. These investments are made with the condition of repayment through participation in revenues generated by the productions.

In addition to equity investments for production financing, **development loans** may be provided to qualified applicants under the EIP for film and video development. This program element provides support for taking an idea through the stages of research, writing, market analysis and costing. Support for the development of a project does not necessarily imply funding by the Corporation in the production stage of the project. Project development loans are interest free and are to be repaid on the earlier of the first day of principal photography or on the optioning, sale or transfer of the property to a third party.

In addition, the Corporation has been designated by the Minister of Finance to administer the Film and Video Industry Tax Credit Program, through the review of tax credit applications and by making recommendations to the Minister of Finance relating to the registration of productions. Under the Program, a corporation producing an eligible film or video in the Province may apply to the Minister for a **film and video industry tax credit**. The tax credit is deducted against corporate income taxes which are otherwise payable under the Provincial *Income Tax Act*. Where the tax credit exceeds the tax otherwise payable, the excess may be paid to the corporation. At the time of our review there had not been any significant amount of activity under this program.

Total revenues for the Corporation for the year ended 31 March 2001 were $1.813 million, consisting primarily of operational and Equity Investment Program funding from the Province totalling $1.709 million. Total expenses were $1.836 million, consisting of $1.139 million in Equity Investment Program expenditures, salaries and benefits of $233,000, conference/travel expenses of $108,000 and other administrative and amortization expenses totalling $356,000. The Corporation had a net loss for the year of $23,000.

3.26 Newfoundland and Labrador Film Development Corporation

Scope and Objectives

We completed our review of the Newfoundland and Labrador Film Development Corporation in May 2001. The objective of our review was to determine:

- what policies and procedures the Corporation has established to govern its operations; and
- whether the Corporation has complied with these policies and procedures.

Our review consisted of interviews with Corporation personnel and a review of relevant information including policies and procedures, board minutes, program files, and financial statements and reports.

Conclusion

In 1996, Cabinet authorized the establishment of the Newfoundland and Labrador Film Development Corporation. At that time, Cabinet directed that the Corporation was to have an initial five year mandate *"with a complete review to be undertaken at the end of three years to ensure adequate progress towards the policy objectives"*. Since 1996, $4 million in funding has been provided to the Corporation; however, the review as directed by Cabinet has never been undertaken. We are recommending that this review be completed to determine whether the objectives of Government are being met.

Findings and Recommendation

Our review of the Corporation identified some other areas that require improvement and these have been reported to the Corporation. At the time of our audit, the Corporation had taken action to address our concerns.

Recommendation

The three year review of the Corporation's mandate as directed by Cabinet in 1996 should be undertaken.

Corporation's Response

Government has commissioned a comprehensive study on the local film and video industry and the effectiveness of the Film Development Corporation and the programs which they administer. It is anticipated that this study will be completed in early January, your report will be helpful to that exercise.

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3.27 Special Celebrations Corporation of Newfoundland and Labrador, Inc.

Findings and Recommendations

The Special Celebrations Corporation of Newfoundland and Labrador, Inc. was incorporated under the *Corporations Act* on 27 August 1998. It was established to plan, organize, manage and supervise tourism special events for the Government of Newfoundland and Labrador. During the course of the financial statement audit of the Corporation for the year ended 31 March 2001 significant concerns were noted with the Corporation's non-compliance with Government's *Guidelines Covering the Hiring of External Consultants* and the *Public Tender Act*. The following is a summary of the issues noted during our review.

Hiring of Consultants

Our review of expenditures indicated that the Corporation hires external consultants on a regular basis. For the engagement of these types of services, the Corporation has adopted the *Guidelines Covering the Hiring of External Consultants* which were approved by Cabinet. For contracts (excluding a fee for service on a per diem basis) less than $50,000, the *Guidelines* require that when time constraints permit and there are a sufficient number of consultants (3 or more) at least three proposals be obtained. For contracts greater than $50,000 (excluding a fee for service on a per diem basis), the *Guidelines* require a public request for proposals. For a fee for service contract on a per diem basis less than $50,000, obtaining at least three proposals is discretionary while those contracts over $50,000 require at least three proposals.

During a review of a sample of expenditures, the following observations were noted where the Corporation did not comply with the *Guidelines* with respect to consultants fees (excluding Harmonized Sales Tax):

- On 25 February 2000, the Corporation entered into a contract with a company for the production and fabrication of the Viking Museum Exhibit for a total value of $443,686. Our review of this contract indicated that Cabinet authorized the selection of this consultant as required by the *Guidelines*. As this contract is greater than $50,000, the *Guidelines* also require that prior to the selection of the consultant, the Corporation conduct a public call for proposals; however, the Corporation did not conduct any call for proposals.

- During the year ended 31 March 2001, a consultant was hired for a contract up to a maximum of $80,000. This contract was not a fee for service agreement and thus the *Guidelines* require that the Corporation conduct a public proposal call. Our review indicated that the Corporation did not conduct any call for proposals and therefore, did not comply with the *Guidelines*.

- During the year ended 31 March 2001, a consultant was hired under five separate contracts for a total value of $107,500. Although each contract was under $50,000, the Corporation did not obtain three proposals as required by the *Guidelines*. This contract was not a fee for service agreement nor could officials of the Corporation provide any support that there were any time constraints considerations or that there were not a sufficient number of consultants that provide this service.

- $9,360 was paid to a consultant under a ten week contract. This contract was extended on two consecutive occasions for an additional 48 weeks (up to 31 August 2001). The total contract covered a 58 week period with a total contract value of $52,560 plus expenses. The Corporation did not obtain any proposals for either the initial contract or the two extensions. This contract was not a fee for service agreement nor could officials of the Corporation provide any support that there were any time constraints or that there were not a sufficient number of consultants that provide this service.

- $10,000 was paid to one consultant without three proposals being obtained. This contract was not a fee for service agreement nor could officials of the Corporation provide any support that there were any time constraints or that there were not a sufficient number of consultants that provide this service.

Non-Compliance with the Public Tender Act

(a) Shipping Crates for the Viking Museum Exhibit

On 25 February 2000, and as indicated previously in this report, the Corporation entered into a professional services contract with a company for the production and fabrication of the Viking Museum Exhibit for a total value of $443,686. On 26 April 2000, an amendment was added to the original contract to include the production of custom shipping crates for an additional $33,939. The production of custom shipping crates, however, involves the construction of a work and is, therefore, subject to the *Public Tender Act*. As the Corporation did not call public tenders for this additional contract, it did not comply with the *Public Tender Act*.

(b) Satellite Uplink Facility

During testing of expenditure, a transaction in the amount of $123,478 was reviewed which represented a payment to a vendor for the mobile facility to feed the satellite uplink for the televising of the landing of the Islendingur at L'Anse Aux Meadows in July 2000. Although the Corporation did not call for public tenders for this contract because it considered the vendor to be the only source available to provide the service in the time frame required, our review indicated that there are a number of vendors that provide this type of service. Officials of the Corporation could not provide any evidence that any contact had been made with any other potential vendors.

It was further identified that there was no agreement between the vendor and the Corporation defining contract terms including an established price. While the service was provided between the 24th and 28th of July 2000 and the related invoice was received on 18 August 2000, the purchase order which authorizes the service was dated the 25th of August 2000. As a result, the service was provided without proper purchasing authority and without the required commitment of funds.

Recommendations

The Corporation should comply with the terms of the Guidelines Covering the Hiring of External Consultants.

The Corporation should:

- *comply with the* Public Tender Act*;*
- *ensure that all contract files contain supporting documentation to evidence compliance with the* Public Tender Act*; and*
- *ensure that all expenditures are appropriately authorized prior to the receipt of goods or services.*

Corporation's Response

The Corporation agrees that it should comply with the terms of the Guidelines Covering the Hiring of External Consultants, however, the following extenuating circumstances should be noted:

- *With regard to the contract for the production and fabrication of the Viking Exhibit, the Corporation did correctly follow the Guidelines for the design work, however, when the design phase was completed it was discovered that there were time constraints in connection with the production and fabrication phase. As a result, with Cabinet approval, the original contract was amended to encompass this phase of the Exhibit.*

- *The hiring of a consultant for approximately $80,000 without conducting any call for proposals also relates to time constraints. The contract pertained to the Wireless Vision Congress and since the Corporation had very little experience in this area it became clear very quickly that the time frame for organizing a world class event of this nature would require a certain expertise and immediate action was necessary.*

- *With regard to the five separate contracts totalling $107,500, it should be noted that the contracts were split because each contract related to separate projects. The consultant hired possessed a certain creative flare and had worked with the Corporation previously. It was therefore in the best interest of the Corporation and the Province to utilize this consultant for the various projects.*

- *The extension of a ten weeks contract for an additional 48 weeks for a total value of $52,560. The consultant was originally hired for a temporary project but with the delays in the startup of the Receiving the World project, it was necessary to get experienced persons working on this without any further delay, to ensure the delivery of these events. Thus, for continuity this contract was extended.*

- *With regard to the payment of $10,000 to one consultant without three proposals being obtained, due to the low dollar value of this contract and the fact that the Corporation should have signed a fee for service contract for this work, a call for proposals was not completed.*

The Corporation feels that it followed the Public Tendering Act with regard to the contract amendment of $33,939 for the production of custom shipping crates for the Viking Exhibit because the amendment did not exceed 10% of the fabrication contract. It should be noted that it was advantageous for the same consultant to be utilized for all phases of this project.

In connection with the Satellite Uplink Facility please note that it was the Corporation's intention to utilize a CBC mobile for the feed to televise the landing of the Islendingur at L'Anse Aux Meadows, however, due to a strike and picketing at the CBC site, alternate arrangements were made which meant that there was insufficient time for public tendering. The Corporation did complete a Form B in connection with this matter.

3.28 Coastal Labrador Marine Services

Introduction

In April of 1997, the Federal and Provincial governments announced an agreement that transferred responsibility for the coastal Labrador marine service to the Province. As part of this agreement, the Province received a $347 million cash settlement and all related infrastructure including two vessels, the MV Sir Robert Bond and the MV Northern Ranger. The MV Sir Robert Bond was built in 1975 and the MV Northern Ranger was built in 1986.

Lewisporte Terminal, MV Northern Ranger on the left and MV Sir Robert Bond on the right.

In the initial year of assuming responsibility for this service the Province entered into an agreement with Marine Atlantic Inc. for the operation of this service for the period 1 April 1997 to 31 December 1997. The Province agreed to reimburse Marine Atlantic for its net cost of providing the service. This amounted to approximately $11.6 million for the nine month period ended 31 December 1997 and was audited by the Auditor General of Canada.

3.28 Coastal Labrador Marine Services

In February and March 1998 the Province invited, through public tenders, private businesses to submit proposals for the provision of the coastal Labrador marine services. On 2 April 1998, the Minister of Works, Services and Transportation announced a new operator for the service, 10663 Newfoundland Limited, a consortium of companies consisting of the Woodward Group of Companies, C.A. Crosbie Shipping Limited and Puddister Trading Company Limited.

The coastal Labrador marine service includes the provision of passenger and freight service by five vessels as follows:

- The MV Sir Robert Bond provides passenger and freight service from Lewisporte to Cartwright to Happy Valley-Goose Bay and return to Lewisporte.
- The MV Northern Ranger provides passenger and freight service from St. Anthony to all ports as far north as Nain and return.
- The MV Apollo provides passenger service between St. Barbe and Blanc Sablon, Quebec.
- The MV Nada provides a freight service from Lewisporte to all ports as far north as Nain as required.
- The MV Astron provides a freight service from Lewisporte to all ports as far north as Nain as required with the exception of Rigolet and Williams Harbour.

Details of the costs for these services are outlined in Figure 1.

Figure 1

Department of Works, Services and Transportation
Coastal Labrador Marine Service
For the Years Ending 31 March
($ Millions)

Vessel	Contractor	2000		2001		2002
		Budget	Actual	Budget	Actual	Budget
MV Sir Robert Bond	10663 Newfoundland Ltd.	$ 3.6	$ 3.5	$ 3.6	$ 5.8	$ 4.7
MV Northern Ranger	10663 Newfoundland Ltd.	2.2	2.4	2.2	2.9	2.5
Wharf and terminal	10663 Newfoundland Ltd.	3.0	1.3	2.6	1.3	2.1
	Sub-total	8.8	7.2	8.4	10.0	9.3
MV Astron	Canship	2.1	1.8	2.1	2.3	2.3
MV Nada	Canship	2.7	2.8	2.7	2.9	2.2
MV Apollo*	Labrador Marine Inc.	1.6	1.9	5.4	5.7	5.6
Marine operations		0.1	0.1	0.1	0.1	0.1
	Total	$ 15.3	$ 13.8	$ 18.7	$ 21.0	$ 19.5

*The MV Apollo began service in 2000-01. In 1999-00 the service was provided by the MV Northern Princess operated by Northern Cruiser Limited.

This report focuses on the expenditures relating to the two coastal Labrador ferry services provided by the MV Sir Robert Bond and the MV Northern Ranger, as well as the wharf and terminal expenses.

Scope and Objectives

We completed our review in April 2001 of the expenditures related to the two coastal Labrador ferry services provided by the MV Sir Robert Bond and the MV Northern Ranger, as well as the wharf and terminal expenses. Our review covered the period from 1 April 1997 to 31 March 2001. The objectives of our review were to determine whether:

- the awarding of the contract to the private company was made in accordance with Government policies and procedures, and the *Public Tender Act* and Regulations; and

- the payments for the coastal Labrador service are properly approved, monitored and in accordance with applicable contracts and Government procedures.

Conclusions

In April 1997, the Province assumed responsibility for the coastal Labrador marine service and in December 1997 received $347 million from the Federal Government to fund the service in perpetuity. Effective 1 April 1997, the Province contracted Marine Atlantic to provide this service to 31 December 1997. Subsequent to this date, the Province contracted with a private operator to provide this service. In accordance with the contract awarded in April 1998, the Province provides its two marine vessels, the MV Sir Robert Bond and the MV Northern Ranger, to the contractor, and the contractor is responsible for the operation of the two vessels.

The actual cost of operating the service is significantly higher than the estimated cost prepared by the Department in November 1998. In 1998 the Department estimated that the cost of operating the Labrador marine services between 1 April 1998 and 31 March 2001 would be $51.8 million. However, actual costs to 31 March 2001 totalled $62.5 million. The most significant increase occurred in 2000-01 for which the Department estimated costs of $12.6 million in November 1998 while actual costs were $21.0 million.

The Department contravened the *Public Tender Act* and paid the contractor $990,000 for refit work which was not tendered and not provided for under the contract. Furthermore:

- The amount of refit work carried out by the contractor is increasing each year. For example the contractor was paid $91,000 for refit work in 1999, $323,000 in 2000 and $576,000 in 2001.

- Refit costs consist of salaries, supplies, catering expenses, and an "administration fee". In 1999, the contractor charged the Department an administration fee on salaries. In 2000, the administration fee was charged on salaries and supplies. In 2001, the administration fee was charged on salaries, supplies and catering expenses. In total the contractor was paid $79,000 for administration fees which are included as part of the $990,000 for refit work.

- There was no support at the Department for any of the rates being charged by the contractor for the refit costs totalling $990,000. In addition, there were no work orders issued for the work to be done. As a result, there is inadequate control over the actual work undertaken and the amounts that were eventually paid by the Department. We identified two overpayments made to the contractor totalling $65,000.

The contract envisions a refit period of approximately four weeks per year during which the Department takes possession of the vessels and the contractor ceases to receive daily rates. The following outlines our concerns regarding payments during the refit periods:

- In 1998-99, there was no designated refit period and the contractor received daily rates for each day from 18 May 1998 to 31 March 1999. However, refit work was carried out, without tender, by the contractor between 1 March 1999 and 31 March 1999 for a total of $91,000 while continuing to receive daily rates totalling $173,385 for that same period.

- In 1999-00, there was no designated refit period and the contractor received daily rates from 1 April 1999 to 31 March 2000. However, refit work was carried out, without tender, by the contractor for numerous days throughout the entire year to 31 March 2000 for a total of $323,000 while continuing to receive daily rates totalling $680,000 for those same days.

- In 2000-01, there were designated refit periods from 7 May to 14 June during which the contractor was paid $154,000 for refit work which was not tendered by the Department as required by the *Public Tender Act*. During this period, no daily rates were paid to the contractor and this was in accordance with the contract. However, additional refit work totalling $422,000, again not publicly tendered, was carried out by the contractor throughout the year during which time they received $510,000 in daily rates for the same days on which refit work was carried out.

  In summary, the Department paid the contractor daily rates totalling $1.4 million while the contractor also received $836,000 in refit work that was not tendered as required by the *Public Tender Act*.

The contractor is paid approximately $1.0 million each year as a freight handling subsidy. This subsidy is based on the weight of the freight being handled. The Department does not have adequate procedures in place to ensure that payments of this subsidy are in accordance with the terms of the contract.

The Department does not have adequate procedures in place to ensure that the contractor is complying with the terms of the contract related to the quality of the service to be provided. The contract requires the contractor to maintain the vessels in a high state of cleanliness and repair, provide reservation services throughout the year, remove debris from various areas at least once per week, provide stevedoring services, ensure facsimile machines are maintained at all wharf points and terminals and maintain ticket selling terminals at Lewisporte and Happy Valley - Goose Bay.

Findings and Recommendations

Cost of Coastal Labrador Marine Services

In November 1998 the Department prepared cost estimates for coastal Labrador marine service to determine the projected drawdowns from the $347 million Labrador Transportation Initiative Fund. This analysis estimated that $83.3 million would be required for the seven-year period 1997-98 to 2003-04 to compensate the Province for the cost of taking over the coastal Labrador marine service.

Subsequent to the preparation of cost estimates in November 1998, the Department prepared annual budgets for the operation of this service. Figure 2 shows the departmental cost estimate prepared in November 1998 and shows the amount subsequently included in the Department's annual budget along with the amounts actually paid by the Department for the service.

Figure 2 indicates that the Department's original estimated costs to 31 March 2001, as prepared in November 1998, were significantly lower than the actual costs. To 31 March 2001 the estimated amount totalled $51.8 million while actual costs totalled $62.5 million. The most significant increase occurred in 2000-01 for which the Department estimated costs of $12.6 million in November 1998 while actual costs were $21.0 million.

Figure 2

Coastal Labrador Marine Services
Projected and Actual Costs by Year
For the Years Ending 31 March
($ Millions)

Year	Estimated Cost	Budget	Actual Costs
1998	$ 13.5	*$15.3	$ 13.6
1999	12.6	15.3	14.1
2000	13.1	15.3	13.8
2001	12.6	18.8	21.0
	51.8	**64.7**	**62.5**
2002	11.0	19.5	N/A
2003	11.0	N/A	N/A
2004	9.5	N/A	N/A
Total	$ 83.3	$ 84.2	$ 62.5

Source: Departmental reports, budgets and cost information.
* - funding provided by special warrant

The actual costs identified in Figure 2 include direct payments to the contractors, oil and fuel for the vessels, refit costs for the Province's two vessels (the MV Sir Robert Bond and the MV Northern Ranger) and other costs. For the year ended 31 March 2001, $4.9 million of the $21.0 million was paid to one contractor, 10663 Newfoundland Limited, for the operation of the MV Sir Robert Bond, MV Northern Ranger, and for wharf and terminal operations as shown in Figure 3.

Figure 3

Coastal Labrador Marine Services
Operating Costs
For the Year Ended 31 March 2001
($ Millions)

	Contractor	Total	Payments to Contractor	Fuel	Other
Sir Robert Bond	10663 Newfoundland Ltd.	$ 5.8	$ 2.0	$ 1.4	$ 2.4
Northern Ranger	10663 Newfoundland Ltd.	2.9	1.6	0.6	0.7
Wharf and Terminal	10663 Newfoundland Ltd.	1.3	1.3	-	-
		10.0	4.9	2.0	3.1
Astron	Canship	2.3	1.9	0.4	-
Nada	Canship	2.9	2.5	0.3	0.1
Apollo	Labrador Marine Inc.	5.7	4.8	0.9	-
Marine Operations	Not Applicable	0.1	-	-	0.1
		$ 21.0	$ 14.1	$ 3.6	$ 3.3

Source: Department of Works, Services and Transportation financial information.

Findings from our review of the awarding of the contract to 10663 Newfoundland Limited and the payments under this contract follow.

Awarding of Contract

The Province assumed responsibility for the coastal Labrador marine service effective 1 April 1997 and contracted Marine Atlantic to provide this service temporarily to 31 December 1997. Tenders were not invited and this was not reported to the House of Assembly as a public tender exception, as required by the *Public Tender Act*.

On 9 February 1998, the Province called for public tenders for the operation of the service. These tenders were originally requested to be submitted by 2 March 1998; however, as a result of complaints from potential bidders regarding the short response period, the deadline for responses was extended to 17 March 1998.

The Province received three responses to the invitation to tender and the contract was offered to the lowest bidder on 24 March 1998. However, this bidder advised the Province on 31 March 1998 that they were withdrawing from the process and the tender was awarded on 2 April 1998 to the next highest bidder, 10663 Newfoundland Limited, in accordance with the *Public Tender Act.*

During the period 1 January 1998 to 31 March 1998 the service was not operating as the two vessels providing the service were on lay up under the care of a separate contractor. The contract for this service was awarded without public tender as reported in section 3.39 of the 1999 Report of the Auditor General to the House of Assembly.

1. Payments under Contract

Payments to the contractor are made based upon an approved daily rate for each vessel depending on whether the vessel is operating, on lay up, en route to and from refit, in preseason preparation or in post-season preparation. The contract does not provide for the payment of a daily rate during a refit period as mutually agreed by the contractor and the Department. During refit, the vessel is considered to be returned to the owner, the Province. Contract provisions are also made for the operation of shore facilities and for freight handling. Details of the daily rates for the two vessels are outlined in Figure 4.

Figure 4

Coastal Labrador Marine Services
Daily Contract Rates
May 1998 to 31 March 2001

Activity	MV Sir Robert Bond	MV Northern Ranger
Operating	$6,967	$5,731
Lay up	$3,065	$2,528
Post season	$3,033	$4,547
Pre season	$3,032	$3,944
Transportation to and from refit	$2,060	$2,684

Source: Contract between the Province and 10663 Newfoundland Limited

In 1998-99, the contractor received a daily rate for each vessel for every day between 18 May 1998, the day the contractor assumed responsibility for both vessels, to 31 March 1999, a total of 318 days. Similarly, in 1999-00, the contractor received a daily rate for every day of that fiscal year for a total of 366 days. In 2000-01, the contractor received a daily rate for 337 days for each vessel, but did not receive any daily rate while each vessel was on dry dock for refit for 28 days.

Figure 5 outlines all payments made to 10663 Newfoundland Limited under this contract.

Figure 5

Coastal Labrador Marine Services
Payments made to 10663 Newfoundland Limited
For the Years Ending 31 March
($ Millions)

Description	Annual Contract Estimate	Actual Costs		
		1999	2000	2001
MV Northern Ranger daily rates	$ 1.3	$ 1.2	$ 1.4	$ 1.3
MV Sir Robert Bond daily rates	1.7	1.7	1.9	1.7
Shore Facilities operation ($25,000 per month)	0.3	0.3	0.3	0.3
Freight Handling	0.9	1.0	1.0	1.0
Refit	0.0	0.1	0.3	0.6
Total cost	$ 4.2	$ 4.3	$ 4.9	$ 4.9

Source: Department of Works, Services and Transportation financial information.

Our review of payments to the contractor identified the following:

- The contract indicates that the owner and the contractor will mutually agree on a refit period, and that the refit period will be approximately four weeks. For the period 1 April 1999 to 31 March 2000 the Province paid the contractor for 366 days for each vessel although the contract provides for a refit period of approximately 4 weeks for each vessel when the contractor would not receive any daily rate. As a result, the contractor was overpaid approximately $156,600.

- The purchase order issued to cover the cost of the service for 2000-01 was for $4.12 million which is not enough to cover the original estimated cost of $4.17 much less the cost that would be associated with a trend to higher usage. Furthermore, the cost of providing these services in 2000-01 was $4.9 million.

- A review of contractor invoices identified one invoice dated 31 May 1999 charged an incorrect amount for preseason preparation days. The contractor billed the Province and was paid for two preseason days for the MV Sir Robert Bond using the contract rate for the Northern Ranger. As a result, the contractor was overpaid approximately $1,800 for the two preseason days.

- The Province paid the contractor $38,033 for the hire of a vessel for the period 21 September 1998 to 5 October 1998. The vessel was owned by a second unrelated company while the service was the responsibility of a company other than 10663 Newfoundland Limited. It is difficult to understand why the replacement vessel was not provided by the company responsible for the service or why 10663 Newfoundland Limited was involved in acquiring a replacement vessel. In any event, the contract was not tendered as required by the *Public Tender Act*.

2. Refit Costs

Under the terms of the contract, the Department is responsible for the tendering of the refit work as well as the expenses associated with the annual refit and major repairs. The contract requires the contractor to supply a crew during a refit but the number and classification of the crew is to be decided by the Department. The cost of the crew during refit is to be paid by the Department from detailed invoicing from the contractor. Since 1999, the Department paid the contractor $990,000 for refit costs. Our review of these payments indicated the following:

- Although the *Public Tender Act* requires refit costs to be tendered and the contract between the contractor and the Department requires the Department to tender refit work, no tenders were called and since 1999, the Department has paid refit costs totalling $990,000 to the contractor without tendering as required by the *Public Tender Act*. Of this amount, $91,000 was paid in 1998-99, $323,000 was paid in 1999-2000 and $576,000 was paid in 2000-01.

- In 1999, refit costs of $91,000 consisted of salaries, supplies, catering expenses and an administration fee on salary costs. In 2000, refit costs of $323,000 consisted of salaries, supplies, catering and an administration fee on salaries and supplies. In 2001, refit costs of $576,000 consisted of salaries, supplies, catering and an administration fee on all costs. In addition to the refit expenditures not being tendered as required by the *Public Tender Act*, there is no support at the Department for any of the rates being charged by the contractor for the refit costs. In addition, there were no work orders issued for the work to be done. As a result, there is inadequate control over the actual work undertaken and the amounts that were eventually paid by the Department. In total the contractor was paid $79,000 for administration fees which are included as part of the $990,000 for refit work.

- Of the $990,000 paid to the contractor for refit work without the benefit of public tender, $836,000 was paid to the contractor for refit work while the contractor was paid for those same days the daily rates totalling approximately $1.4 million for operating, lay up, pre or post-season, or transportation to and from refit. While the contract provides for the designation of refit periods and the cessation of daily rates, no such refit periods were designated and as a result, the contractor continued to be paid daily rates.

The contract envisions a refit period of approximately four weeks per year during which the Department takes possession of the vessels and the contractor ceases to receive daily rates. The following outlines our concerns regarding payments during the refit periods:

- In 1998-99, there was no designated refit period and the contractor received daily rates for each day from 18 May 1998 to 31 March 1999. However, refit work was carried out, without tender, by the contractor between 1 March 1999 and 31 March 1999 for a total of $91,000 while continuing to receive daily rates totalling $173,385 for that same period. In my opinion, the period 1 March to 31 March 1999 should have been designated a refit period, the Department should have taken possession of the vessels, the refit should have been tendered, and the contractor should not have received the daily rates totalling $173,385.

- In 1999-00, there was no designated refit period and the contractor received daily rates from 1 April 1999 to 31 March 2000. However, refit work was carried out, without tender, by the contractor for numerous days throughout the entire year to 31 March 2000 for a total of $323,000 while continuing to receive daily rates totalling $680,000 for those same days. In my opinion, the Department should have designated a refit period and taken possession of the vessels, tendered the refit work and ceased paying the contractor the daily rates during the refit period.

  - In 2000-01, there was a designated refit period from 7 May to 3 June for the MV Sir Robert Bond and from 18 May to 14 June for the MV Northern Ranger during which the contractor was paid $154,000 for refit work which was not tendered by the Department as required by the *Public Tender Act*. During this period, no daily rates were paid to the contractor. However, additional refit work totalling $422,000, again not publicly tendered, was carried out by the contractor throughout the year during which time they received $510,000 in daily rates for the same days on which refit work was carried out. In my opinion, the Department should have carried out refit work during the designated refit period, taken possession of the vessels, tendered the refit work and ceased paying the contractor the daily rates during the refit period.

- Under the contract, the contractor is responsible for the on-going maintenance of the vessels and any repairs related to their failure to properly maintain the vessels. The Department is responsible for the tendering of the refit work as well as the expenses associated with the annual refit and major repairs. Given that the "refit work" is carried out by the contractor, without public tender, throughout the year, it is difficult to differentiate what maintenance and repairs are the responsibility of the contractor and what repairs are the responsibility of the Department. In any event, it appears that refits, maintenance, and repairs are all paid for by the Department.

- Since the invoices totalling $990,000 for refit work did not always indicate which vessel the refit work related to, it was not possible to charge these expenses to the appropriate vessels in order to have accurate costs for management purposes. As a result of inadequate information on the invoices, the Department split the cost evenly between the MV Sir Robert Bond and the MV Northern Ranger, even though the MV Sir Robert Bond is a much larger ship. This situation worsened in September 2000 when the Department began to charge the refit charges to shore services. As a result, the cost information regarding the operations of these two vessels is not accurate.

- The MV Sir Robert Bond did not operate as scheduled in June 2000 because of mechanical problems. The contractor charged the Department the operating rate $167,210 (24 days at $6,967 per day) because the ship was fully crewed and ready to sail as soon as repairs were completed. There is no requirement in the contract for the Department to pay operating rates while the vessel is not in operation. The lay-up rate is $3,065 per day and this is the rate that should have been paid. As a result, the Department overpaid the contractor $93,648.

  During this same period when the Department overpaid the contractor $93,648, the contractor also billed the Department $63,445 for payroll and catering services. Since the Department was already paying the contractor a daily rate, the Department should not have paid the additional $63,445 for payroll and catering services. This $63,445 is included in the $990,000 in refit costs.

- Included as part of the $990,000 in refit costs were payments totalling $20,060 paid by the contractor to a company owned by the Captain of one of the vessels. The Captain was also being paid as part of the refit crew requested by the Department.

3. Freight Costs

As part of the contract, the Province pays the contractor a freight handling subsidy of $25 for each revenue ton of freight handled by the contractor which may be shipped by any of the four vessels servicing the Labrador coast (MV Sir Robert Bond, MV Northern Ranger, MV Nada, MV Astron). The revenue tons of freight are the total tons of freight for which the contractor invoiced customers. The freight subsidy approximates $1.0 million per year.

A 1997 report on how to best provide coastal Labrador with transportation services prepared by a private consulting firm concluded that freight volume would shift from the marine services to the Trans Labrador Highway at a rate of 1,500 tons per year in 1998 and 1999 and 12,000 tons in 2000. However, marine freight has not declined to the expected levels. Details of the estimated freight tonnage and the actual freight tonnage are outlined in Figure 6.

Figure 6

Coastal Labrador Marine Service
Freight Tonnage
Years ended 31 March

Fiscal Year	Estimated Tonnage	Actual Tonnage
1998	37,000	45,331
1999	35,500	39,502
2000	34,000	41,501
2001	22,000	40,198

Source: Department of Works, Services and Transportation reports.

The Province pays the freight subsidy based on the submission of an invoice by the contractor supported by a summary listing of commodities shipped and the respective weights. The Department does not perform adequate work on whether the contractor is complying with the contract when it bills for the freight subsidy. Although an employee of the Department periodically examines bills of lading to ensure proper rates are being charged and calculations are correct, this process is informal and there are no standard audit programs or representative sample techniques used. Furthermore, the invoices being reviewed by this employee are reviewed to ensure that the rates being charged to customers are correct but does not check to ensure that the total weight being subsidized by the Province is correct.

Other

Under terms of the contract, in addition to the financial terms, there are a number of requirements relating to the provision of services. For example the contractor is to maintain the vessels in a high state of cleanliness and repair, provide reservation services throughout the year, remove debris from various areas at least once per week, provide stevedoring services, ensure facsimile machines are maintained at all wharf points and terminals and maintain ticket selling terminals at Lewisporte and Happy Valley - Goose Bay.

Although an employee of the Department visits various sites and vessels, there is no checklist or formal process to document whether the contractor is complying with all terms of the contract. According to reports filed by an employee of the Department in 1998, the Contractor did not have facsimile machines in five ports: Rigolet, Postville, Hopedale, Davis Inlet and Nain. In March 2001 we asked the contractor for a list of telephone and facsimile numbers for the ports along the Labrador Coast. This list did not have facsimile numbers for nine ports: St. Anthony, Red Bay, Black Tickle, Cartwright, Rigolet, Makkovik, Postville, Davis Inlet and Nain.

Recommendations

The Department should:

- *ensure compliance with the Public Tender Act;*
- *monitor the levels of usage of the coastal Labrador marine services so that needed changes to the budget allocations can be made;*
- *ensure accurate recording of expenditures in the accounting system so that informed decisions on the service can be made; and*
- *ensure compliance with all contracts it has entered into regarding the coastal Labrador marine services.*

Department's Response

"The Department contravened the Public Tender Act"

- *The Department does not agree with the interpretation the Auditor General has advanced respecting the contract between the Department and the Contractor. The Auditor General asserts that the Department contracted for $990,000 worth of refit work without the benefit of public tender.*
- *The Department has proceeded under the separate interpretation that management services and also maintenance and refit activities (excepting dockyard work) were tendered together under one contract through a competitive bidding process. This is permitted under the* Public Tender Act. *Following award, the Department acted in strict accordance with its understanding of the contract and what it intended the contract to be and does not believe that in so doing it has violated the* Public Tender Act.

- *Further the Department has received an interpretation from the Department of Justice with respect to the particular contract terms in question which notes the following; "I do not think the terms of the document generally lead to a conclusion that either of the competing interpretations [that of the Department or the Auditor General] should be given more credence." The Department contends therefore that its interpretation remains valid.*

- *The Department maintains that its actions were taken on the premise that all activities had been properly tendered under the contract in the first instance and this was in accordance with the Department's interpretation of the contract language.*

- *It is noted that $1,768,983 of dockyard refit work was publicly tendered during the currency of the contract. This is wholly consistent with the Department's interpretation of the contract regarding the separation of drydock refit work requiring tender from that which occurs at dockside and is included under the contract.*

Paid Daily Rates "not provided for under contract"

- *The Report states that the Department paid daily rates to the Contractor totalling $1.4 million while refit work was being carried on by the same Contractor. The Auditor General asserts that the Department should not have paid any rates to the contractor during such repairs. The Department takes the position the payments made were in conformance with the contract.*

- *It is the position of the Department that it is responsible for layday payments regardless of whether the vessel is on drydock or otherwise. This is due to costs which continue to be incurred with respect to the vessels. The only distinction is to whom the rates are paid. During drydock refit, these rates are paid to a dockyard whereas when dockside work is performed the Contractor is paid the rate. The Department states that it is responsible for these costs under the precise terms of the contract. There is no ambiguity in the contract in this regard.*

- *Dockside maintenance occurs during the lay-up period and control of the vessel for practical purposes remains with the contractor. It is both reasonable and within the contemplation of the contract that the Department pay a daily rate while this work is occurring. To say that the contractor is not entitled to a daily rate and must bear these significant costs regardless is not correct, nor is it contemplated under the contract.*

- *The Department exerts control over the vessels only when drydocking is required since wrestling control from the contractor every time a repair is needed is impractical. Even with drydocking, however, certain crewing costs may be incurred and also lay-days are paid to the dockyard under the separate terms of its contract. These rates are paid when the vessel is in drydock and are essentially the daily rates as are paid to the contractor.*

3.29 Vessel Replacement Plans

Findings and Recommendation

The Department of Works, Services and Transportation is responsible for the Province's ferry operations. During the 2000-01 fiscal year, the Province spent $40.0 million on ferry operations throughout Newfoundland and Labrador and collected $23.3 million in revenues. At 31 March 2001, the Province's ferry operations included 21 vessels, 20 of which are serving 16 routes around the Island and coastal Labrador, and one vessel which is undergoing major refit.

Of the 21 vessels, 9 are owned by the private ferry operators and the remaining 12 are owned and operated by the Province. Figure 1 provides the age of these 12 Government owned vessels, which range from 11 to 38 years.

Figure 1

Age of Province Owned Vessels
31 March 2001

Vessel	Age
Inch Arran	38
Green Bay Transport	34
Hamilton Sound	33
Sound of Islay	33
Captain Earl Winsor	29
Island Joiner	28
Sir Robert Bond	26
Beaumont Hamel	16
Gallipoli	15
Northern Ranger	15
Ahelaid	15
Flanders	11

Source: Department of Works, Services and Transportation

3.29 Vessel Replacement Plans

We completed a review of the Department's marine vessel replacement plans including a review of the acquisition and refit costs for the Province's most recently acquired vessel, the Ahelaid, which was purchased in 1999. The results of our review were as follows:

- The Province owns 12 marine vessels, ranging in age from 11 years to 38 years, with an average age of 24 years. These vessels continue to deteriorate. Given that the normal life expectancy of a marine vessel is about 25 years, significant expenditures are required to upgrade or replace these vessels.

  Although a Government commissioned study in 1993 recommended that the Province spend $18 million to $25 million over the following 10 years to upgrade the vessels, this was not done. With the exception of the acquisition of the Captain Earl Winsor and the Ahelaid, there has not been a significant upgrade of the Province's fleet of marine vessels since 1993.

  This matter was reported to the House of Assembly in my 2000 Annual Report. Discussions with Government officials indicated that this matter has still not been addressed and there are no definitive plans to replace and renew Government's fleet of 12 marine vessels. As a result, Government will be faced with the need to provide significant funds in the near future to refurbish its marine vessels.

- The most recently acquired vessel is the Ahelaid which was purchased in 1999. At that time, the Department estimated that the cost to purchase and refit the vessel was $2.9 million. It was expected that the vessel would be in service during the fiscal year 2001-02.

  The Ahelaid arrived in St. John's in May 1999. From that time until 31 July 2001, the Department has spent $3.9 million to purchase and refit the vessel and expects to spend an additional $2.6 million to complete the refit bringing the total estimated cost to purchase and refit the Ahelaid for service to $6.5 million. In addition, the Department estimates that the Ahelaid will not be ready for service until the fiscal year 2002-03.

3.29 Vessel Replacement Plans

Recommendation

Government should prepare a vessel replacement and refit plan and proceed with refurbishing its aging marine vessels.

Department's Response

The Department has had a replacement/refurbishing plan for its vessel fleet since 1993.

Government has provided funding to implement this plan within its fiscal capacity and the need to balance marine transportation needs with other priorities such as health and education.

Since 1993 a total of $10.85 million has been spent on vessel replacement and refurbishing, including the acquisition and refurbishing the "Captain Earl W. Winsor" and the "Hull 100".

Through frequent mandatory inspections and certifications by the Marine Safety Branch of Transport Canada, the Department is ensured that all its vessels are maintained to meet safety requirements.

3.30 Government Purchasing Agency

Introduction

The Government Purchasing Agency was originally created in 1973 by *Section 49* of the *Department of Public Works and Services Act*. The *Act* provided that the Government Purchasing Agency's primary duties were to acquire all services that were required by the departments and agencies of the Crown. The *Act* granted the Agency the authority to delegate purchasing authority to the various departments and agencies if the Director of Purchases is satisfied that it is in the interest of efficiency to do so. The *Act* also required that the Agency invite tenders for services except in certain specific circumstances.

From 1973 to 1983, the Government Purchasing Agency was independent of Government departments and was attached to the Department of Public Works and Services for administrative purposes only. However, in 1983 as a result of an amendment in the *Act*, the Government Purchasing Agency was made a part of the Department of Public Works and Services and later, as a result of Government re-organization, was made a part of the Department of Works, Services and Transportation. This 1983 amendment resulted in a loss of independence for the Government Purchasing Agency.

The role of the Government Purchasing Agency is to be responsible for all purchases on behalf of government departments and if deemed efficient on behalf of all agencies of the Crown. The Agency may delegate purchasing authority to departments and agencies if it deems it efficient to do so. However, the Agency is responsible to oversee and monitor the purchasing activities of these entities. As part of its responsibilities, the Agency must prepare a monthly Public Tender Exception Report for the Minister of Works, Services and Transportation for tabling in the House of Assembly.

Expenditures of Government and its various entities

The annual expenditures of the Province total approximately $4 billion. Of the $4 billion, $2.2 billion is paid to various entities which use a significant portion of this money to purchase supplies, goods and services which are supposed to be acquired in accordance with the *Public Tender Act*. In addition, approximately $400 million of the $4 billion is spent by government departments to purchase supplies, goods and services which are also supposed to be acquired in accordance with the *Public Tender Act*.

3.30 Government Purchasing Agency

Our review indicated the following:

- Of the $402 million spent by Government departments for supplies and services, $252 million (or 62.7% of all expenditures made by Government departments) is spent by the Department of Works, Services and Transportation most of which is supposed to be acquired in accordance with the *Public Tender Act*.
- For the period 1 April 2000 to 31 March 2001, $57.4 million was reported to the House of Assembly as purchases for which no public tenders were called. Of the $57.4 million, $34.9 million related to entities and $22.5 million related to Government departments. Of the $22.5 million, $14.6 million or 65% relates to the Department of Works, Services and Transportation. This Department tabled the highest number of exceptions of all Government departments and entities required to comply with the *Public Tender Act*.

Summary

Our work indicated that approximately 63% of expenditures made by the various Government departments for supplies and services and 65% of the public tender exceptions tabled in the House of Assembly were purchases of the Department of Works, Services and Transportation. This indicates that the great majority of the work of the Government Purchasing Agency is centered around the Department of Works, Services and Transportation, of which it is a part. The fact that the Agency is a part of the Department of Works, Services and Transportation questions whether the Agency can function in a manner which is independent of the Department.

The Government Purchasing Agency is required to assess, critique and report on purchases made by all departments and other entities required to comply with the *Public Tender Act*, including the Department of Works, Services and Transportation. To accomplish this, it must be in a position of independence.

Recommendation

Government should draft legislation for consideration by the House of Assembly which ensures that, to the extent possible, the Government Purchasing Agency is independent of any department.

Department's Response

The Government Purchasing Agency is bound by the Public Tender Act and Regulations *and therefore enforces all the requirements of the legislation. Policies and procedures, which apply to all departments, along with the regulations and legislation guarantee objectivity in the procurement process. The* Public Tender Act *permits the acquisition of goods and services through the use of exceptions, which sometimes have to be exercised in emergency and other situations to effectively and efficiently provide services to the public.*

It is the Department's position that the analysis in the Auditor General's report indicates that the Department's use of exceptions is directly proportional to its level of overall expenditures, as would be expected. Nevertheless, the Department is reviewing all rationale to support enacting legislation to make Government Purchasing Agency independent of all Departments and will recommend to Government to do so if it is in the interest of Government overall.

CHAPTER

4

UPDATE ON PRIOR YEARS' REPORT ITEMS

CHAPTER
4
Update on Prior Years' Report Items

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Update on Prior Years' Report Items

4.1 Introduction

We conduct legislative audits to provide the House of Assembly with information on public sector accountability. Legislative audits are carried out to determine whether:

- public money is being properly collected and accounted for;
- expenditures are properly recorded and made for the purpose intended;
- accounts are properly kept;
- assets are adequately safeguarded; and
- accounting and management systems and practices are adequate.

These legislative audits also determine whether the activities of Government departments and agencies have been carried out in compliance with legislation, government policies and other authorities.

Monitoring the implementation of our recommendations is an important part of our obligation to report to the House of Assembly. Our objective is to monitor and report the degree to which positive change has occurred as a result of the implementation of recommendations in our prior years' reports.

In 1996, we commenced a formal process of monitoring and updating the comments and recommendations included in our previous Annual Report to the House of Assembly. It is our intention to monitor and update the recommendations in each Annual Report two years after it has been issued. Monitoring will continue until we are reasonably satisfied that issues are being adequately addressed or are no longer valid.

This Chapter includes the results of these monitoring activities on our Annual Reports up to and including 1999.

Department of Education

4.2.1 Memorial University of Newfoundland (1994 Annual Report, Part 4.9)

Introduction

In 1994 and again in our annual updates from 1996 to 2000 we concluded that the Department of Education did not have an adequate system of accountability in place over grants paid to Memorial University of Newfoundland. In addition, although the University during 2000-01 received approximately $116 million, there was inadequate accountability over this funding.

As a result of our review we recommended that a system of accountability be established over grants to the University. This system should include, but not be restricted to, the following components:

- Roles, responsibilities and duties of the responsible Department and Memorial University should be well defined and communicated. These should be included in legislation and further defined in policy.
- There should be adequate reporting to the responsible Department and the House of Assembly. This includes both financial and performance monitoring.
- The system of accountability should be strengthened by an independent audit process to assess the fairness of the University's representations on performance and to assess management systems and controls.

Update

In May 2001, we contacted the Department of Education requesting an update as to progress on the comments and recommendation included in our 1994 report.

In a response to our request, the Department indicated that, in regards to financial accountability, it requires the University to submit an annual budget as well as specific supplementary financial and other information as required. Audited financial statements and the auditor's management letter are required at the fiscal year end.

As reported in our previous Annual Reports, the Department has not established an adequate system of accountability over grants paid to Memorial University of Newfoundland.

We note that for the 2001-02 year, the Department of Youth Services and Post Secondary Education has assumed responsibility for the Memorial University of Newfoundland. Any further monitoring of this issue will be followed up with that Department.

Department of Education

4.2.2 Deferred Bursaries (1999 Annual Report, Part 3.14)

Introduction

Prior to the introduction of the Newfoundland Student Loan Program in 1994-95, the Province administered a Deferred Bursary Program which was intended to offset student debt borrowed under the Canada Student Loan Program. This program provided students, who qualified, with bursaries which were deferred until the student consolidated their Canada Student Loan at the bank for purposes of repayment. The bursaries are paid out when the student begins to repay their Canada Student Loan. As at 31 March 2001, there were approximately 7,700 students still entitled to receive an estimated $5.8 million in deferred bursaries which were approved prior to July 1994.

In 1999, we conducted a review of the Deferred Bursary Program. We concluded that the Department of Education did not have procedures in place to ensure that all students are paid the deferred bursaries they are eligible to receive. In particular we noted that the Department had no plans to deal with a large percentage of annual notifications returned as undelivered, which had been mailed to students advising them of their right to a deferred bursary.

Update

In May 2001, we contacted the Department of Education requesting an update as to progress on the comments and recommendation included in our 1999 report. The information provided by the Department in response to our request is outlined below.

1999 Recommendation

The Department should conduct a review of outstanding deferred bursaries to determine which students are currently eligible to receive their bursaries. Procedures should be established to ensure these bursaries are paid to eligible students.

Action Taken

The Department indicated that it has taken measures to follow up on the integrity of the personal information in student files, and to the extent possible, has arranged for payments to be made to these students. The Department indicated that the initial responsibility rests with the student to contact the Student Aid Division to settle their outstanding account.

We note that for the 2001-02 year, the Department of Youth Services and Post Secondary Education has assumed responsibility for the Student Aid Division. Any further monitoring of this issue will be followed up with that Department.

Department of Government Services and Lands

4.2.3 Food Premises Inspection and Licensing (1998 Annual Report, Part 3.15)

Introduction

In 1998, we performed a review at the Department of Government Services and Lands of the Food Premises Inspection and Licensing program.

We concluded that some food premises were operating without a valid licence and that licences were issued even though the documentation required under the *Food Premises Regulations*, to assess the food premises for licensing, was not on file. In addition, we found that the Government Service Centre could not demonstrate whether food premises were fully complying with the Regulations because the Environmental Health Inspection Report used by inspectors was not always fully completed.

A Memorandum of Understanding was entered into in 1995 when the Government Service Centre became responsible for food inspection and licensing on behalf of the Department of Health and Community Services. Our review disclosed the Government Service Centre was not complying with the Memorandum of Understanding in that food premises were not being inspected the required number of times each year. Also, we could not determine whether the number of inspections currently prescribed for the various types of food premises was appropriate and that the Department of Health and Community Services had not developed risk assessment tools and risk management techniques to rationalize how frequently food premises should be inspected. As well, food premises inspections relating to licence renewals were not typically completed between March and November of each year and, therefore, inspections were not representative of year round operations of the food premises.

It was also concluded that the Department of Health and Community Service and the Health and Community Services Boards were not receiving sufficient information from the Government Service Centre on the inspection of food premises in the Province.

The Department of Health and Community Services requires the development and maintenance of an on-going, up to date, listing of all active food establishments to facilitate inspections. Two of the five Government Service Centre Regions did not have a database of licensed food premises, while the databases currently utilized by the remaining three Regions were not current and accurate. Also, follow up inspections of previously identified health hazards were not always performed.

We also found that policies being followed by the Government Service Centre may not reflect current legislative requirements and that there had been no review of Department of Health and Community Services' policies relating to the inspection and licensing of food establishments since they were approved in 1994.

As well, the Government Service Centre did not have clear established performance indicators or monitoring procedures for its inspection and licensing activity.

The lack of clear operational objectives for scheduling and monitoring of inspection and licensing activity at the Government Service Centre contributed to the overall failure to discharge inspection and licensing responsibilities.

Update

In May 2001, we contacted the Department of Government Services and Lands requesting an update as to progress on the comments and recommendations included in our 1998 report. The information provided by the Department in response to our request is outlined below.

1. Compliance with Food Premises Regulation

1998 Recommendations

Reports used by the inspectors should be revised to ensure compliance with the Food Premises Regulations.

The Government Service Centre should comply with the Food Premises Regulations.

Action Taken

The Department indicated that a revised form, which will address the concerns raised, has been developed by the Department of Health and Community Services. The revised form will be printed and put into use once the Risk Based Inspection Approach to inspections is implemented.

Risk Based Inspection Approach to inspection is an initiative of the Department of Health and Community Services which provides the tools and guidance whereby an inspector will rank each food premise based on health risk. The ranking will then determine the risk score and the score will coincide with an inspection frequency. The Risk Based Inspection Approach system has been developed and an initial orientation session held with inspectors. The Department of Government Services and Lands advised that implementation of the system has been delayed because the Government Service Centre, in recent months, has had to devote its public health resources to drinking water quality issues in response to an overwhelming public demand. The Department hopes to be able to implement this system in the coming months, with advice from the Department of Health and Community Services.

The Department also indicated that the Application Management and Data Automation (AMANDA) system will preclude food premises being issued a licence without required documentation on file or a food premises operating without a valid licence. AMANDA is a computerized system of data management using real-time information entry and retrieval. The system allows for the tracking of the status of applications, receipting of fee payments (where applicable), and issuance of licences.

Inspectors will be required to enter specific data before a licence can be issued and managers will have the capacity to check on a daily basis, if deemed necessary, to determine if a premises is operating without a valid licence. Additionally, through AMANDA, inspections can be scheduled and tracked on a per-inspector basis. It is expected that inspectors will be online on the AMANDA system before the end of the 2001-2002 fiscal year.

2. Compliance with Memorandum of Understanding

1998 Recommendations

Risk assessment tools, risk management techniques and complete up-to-date guidelines and standards of accepted practice should be developed for the Government Service Centre in accordance with the Memorandum of Understanding.

The Government Service Centre should comply with the requirements of the Memorandum of Understanding.

Action Taken

The Department indicated that inspections have been based on the class of premise, which, as outlined by the Department, is not the most effective means of assigning inspection frequency. The Risk Based Inspection Approach will change the frequency of inspections based on risk. As well, the Department acknowledges that the frequencies set out in the Memorandum of Understanding are not being met. The uptake of resources by the increase in activity in the drinking water program, has been at the expense of program delivery in other areas. It was noted by the Department that five new inspectors were recently hired.

The Department advises that the new risk based frequencies of inspection, combined with AMANDA, will permit officers and managers to schedule inspections to ensure that frequencies are met. AMANDA will also enable direct entry of information by inspectors and enable managers to prepare annual operational plans for food premises inspection and licensing and track progress towards meeting the frequency goals, thereby addressing the concern over inadequate documentation of inspections.

Monthly statistical reports are being provided to Regional Boards by the Government Service Centres, but timeliness of reporting varies across regions. The 1999 *Memorandum of Understanding*, which replaced the original, allows for deviation from the monthly requirement, if agreed by the regional board and the Government Service Centre. The Government Service Centre has not provided the Department of Health and Community Services with an annual report.

Health promotion activities are still being delivered as the need arises, with inspectors deciding if and when a particular food establishment requires training. The 1999 *Memorandum of Understanding* places the operational responsibility for health promotion with the Regional Boards. Nonetheless, the committee reviewing the *MOU*, consisting of members from the Department of Health and Community Services, the Regional Health Boards and the Government Service Centre, recognizes the need for a realistic clarification of the roles and responsibilities for health promotion.

The protocol required to be developed by the *MOU* is at various stages of development; those developed are still in draft form. The 1999 *Memorandum of Understanding* targets five areas for protocol development:

1. Investigation of Communicable Diseases
2. Emergency Preparedness Planning
3. Communications
4. Conflict Resolution
5. Information Collection, Recording and Dissemination

The Committee reviewing the MOU has recommended that responsibility be assigned for the required protocols to ensure adequate and timely documentation. In the interim, existing draft protocols are considered as active.

3. Adequacy of and Compliance with Policy and Procedures

(a) Adequacy of Policy and Procedures

1998 Recommendation

The Government Services Centre should continue to follow Department of Health and Community Services' policy and procedures with respect to temporary food premises until the Department develops standard health guidelines.

Action Taken

The Department indicated that classification of a food premise will no longer be the criterion for inspection frequency, but rather risk as established by the inspector through risk assessment once the Risk Based Inspection Approach to inspections is implemented. The Department of Health and Community Services, in conjunction with the Regional Boards, is nearing completion of a policy manual relating to the food premises inspection and licensing program. The new manual, anticipated to be completed by year end, along with an orientation session, will be delivered to inspectors in January 2002 by the Department of Health and Community Services. The manual will include the "*standard health guidelines of the department*" referenced in the *Food Premises Regulations*.

(b) Licensing of Food Establishments

1998 Recommendation

The Government Service Centre should comply with Department of Health and Community Services' policy and procedures.

Action Taken

The Department indicated that the AMANDA system maintains a Province-wide record of all food premises, active and closed. All regions will have access to a common up-to-date data base which will eliminate the inconsistencies noted across regions in maintaining a food premises database, and which will also address concerns regarding inspectors not receiving a current list of food premises in their area.

(c) Inspection and Documentation of Food Establishments

1998 Recommendation

The Government Service Centre should comply with Department of Health and Community Services' policy and procedures.

Action Taken

The Department indicates that the AMANDA system allows managers to track frequency of inspections and compliance with follow-up inspection dates. Also, the Risk Based Inspection Approach to inspections will require that inspectors complete the inspection report in detail, with such detail being necessary because of the requirement to assign a ranking score.

(d) Investigation of Complaints

1998 Recommendation

The Government Service Centre should comply with Department of Health and Community Services' policy and procedures.

Action Taken

The Department indicates that food complaints will now be documented through the AMANDA system and will require entering details of the investigation, any recommendations, the corrective action taken, and whether the plaintiff was advised. As well, the new policy and procedures manual of the Department of Health and Community Services dealing with food safety, sets out time frames for investigation and reporting results of food premises complaints.

4. Performance Indicators and Monitoring Results

1998 Recommendations

The Government Service Centre should establish clear operational goals and objectives with respect to its food inspection and licensing program. Established goals and objectives should reflect the broader strategic objectives of the Department of Health and Community Services and Health and Community Services Boards.

The Government Service Centre should properly plan and schedule its inspection and licensing activity to ensure its operational goals and objectives are achieved. The Government Service Centre should ensure management participates in the planning and scheduling of inspection and licensing activity.

Action Taken

The Department indicated that its Strategic Plan sets as one of its strategic goals to maintain effective collaborative relationships with government partners to support effective operations. Flowing from the Strategic Plan is a requirement for the preparation of annual divisional operational plans which will reflect the strategic objectives of the Plan and the broad strategic objectives of the partners. Food inspection and licensing program planning will be a component of the operational plan. The operation plan, coupled with AMANDA, will require management to participate in the planning and scheduling of inspection and licensing, and provide management with the capacity to monitor the progress of the Plan.

Department of Government Services and Lands

4.2.4 Management of Crown Lands (1999 Annual Report, Part 3.26)

Introduction

In 1999, we conducted a review of the management of Crown lands to determine whether the Department had adequate systems and procedures to:

- identify Crown land and determine how the land is being utilized;
- develop and coordinate provincial land use management plans;

- dispose of Crown land in accordance with legislation and Departmental policies; and
- identify Crown land leases, licences and grants, to ensure these lands are being utilized as intended and to maintain appropriate billing and collection procedures over this area.

The Department of Government Services and Lands is responsible for the management of the Province's Crown lands. Crown lands comprise approximately 95% of the Province's land mass and as such is one of the Province's most significant natural resources. The management of Crown land is assigned to the Lands Branch of the Department of Government Services and Lands. This Branch is comprised of three Divisions: Crown Lands Administration, Surveys and Mapping, and Land Management. The Branch's responsibilities include processing land applications, preventing unauthorized use of Crown land, resolving conflicts in land use and ownership, producing a map inventory of land in the Province, and developing land use policy and management plans.

Our review indicated that some of the Department's systems and procedures for managing Crown lands were not adequate. For example:

- The Department did not have a comprehensive and complete land parcel identification system for all land in the Province. As a result, it would be difficult for Government to effectively manage and plan the use of Crown lands.
- Planning for land use within Government was found to be fragmented and covers only small areas of the Province. This is due to the Province not having comprehensive land use policies to facilitate a co-ordinated approach for land use within Government.
- The following observations were noted with respect to application processing:
    - A Departmental report on the Crowns Land Division recognized a number of areas that cause delays in the application process that could be improved.
    - Information maintained in the Department's system that tracks the progress of an application was often inaccurate.
- The Land Management Division did not maintain adequate information on cottage lot developments, including the status of lot sales and the associated costs and revenues.

- The Department did not maintain a complete listing of all EDGE companies that were leasing Crown land for $1. Also, the Department did not adequately monitor these leases to ensure that the land was being used as intended and that the companies maintain the EDGE status.
- The Department had inadequate monitoring procedures to ensure that the lessee had adhered to the terms of the lease with respect to type of development and period to complete development.
- The Department did not monitor accounts receivable nor did it perform any regular collection activity.
- Our review of the Province's development of the implementation plan for the establishment of the Geographic Information System (GIS) throughout Government noted several problems. The Department had been completing the development without an approved Provincial Geomatics Strategy in place and the data converted into the GIS was found to be incomplete and outdated.

Update

In May 2001, we contacted the Department of Government Services and Lands requesting an update as to progress on the comments and recommendations included in our 1999 report. The information provided by the Department in response to our request is outlined below:

Identification and Use of Crown Lands

1999 Recommendation

The Department should continue efforts to develop a complete land parcel identification system to establish the extent and boundaries of Crown lands.

Action Taken

The Department indicates that as of October 2001, the Crown Lands Registry contains over 70,000 land titles comprising approximately 47,000 grants, 11,000 leases and 12,000 licences of occupation. The Department states that 50,000 or 71% of these land titles have been plotted on the Geographic Information System to date. Also, the Department's Land Management Division has established a Strategic Planning process, the goal of which is to plot at least 4,000 Crown titles per year. The Department reports that their last objective, to plot all Crown titles in Labrador by 30 September 2001, has been met.

Land Use Policy and Planning

1999 Recommendation

The Department should continue efforts to develop comprehensive land use policies to facilitate a co-ordinated approach for land use within Government. The Department should also review the merits of undertaking more comprehensive land planning in the Province.

Action Taken

The Department reports that it has initiated a project to draft provincial land use policies. This project is still on-going and is currently the responsibility of the Department's Land Management Division. Also, proposals have been developed for the preparation of comprehensive land use plans for high demand areas of the Province. This is in accordance with recommendations of the Committee on the Use of Outdoor Resources and the 1994 Report of the Interdepartmental Review Committee on Land Use Policy and Planning. Funding requests were unsuccessful in the last three budget years. These proposals are under consideration by Government. Action has been initiated to revitalize the Interdepartmental Land Use Committee as a consultation forum to enhance the Department's ability to prepare and co-ordinate Government's land use plans/policies.

Disposition of Crown Lands

1999 Recommendations

The Department should continue efforts to both improve the efficiency of the application process and to improve the accuracy of data in the Application Tracking System with which to monitor the status of applications.

The referral to the Municipal Assessment Agency should be delayed until the Regional Lands Office approves the application.

The Department should maintain a complete listing of any EDGE companies that are leasing Crown Land for $1 and actively monitor these leases to ensure that the land is being used as intended and the company maintains its EDGE status.

Leases between Government and EDGE companies should contain a clause that provides for a change in the lease rate to fair value if the company loses its EDGE status.

Action Taken

The Department has indicated that an intensive application program was initiated in February 2000 in order to address concerns regarding delays in the application process. Specific policy and procedures have been developed throughout the Department which provide regular application monitoring at scheduled time frames during the application process to ensure the least possible delay. The Department indicated that it completed a current random sample of 125 applications which indicated significant improvements in the processing of applications from the date of receipt to the date of issuance of a land title. The results of the sample indicate that applications are now being completed and land titles issued within 40 working days, which excludes any delays created by the applicant or the referral agencies. This is significantly lower than the 240 days indicated in our 1999 report. In addition the Department has developed a new Application Management System to replace the Application Tracking System. This system is anticipated to be implemented throughout the Province by June 2002. The Department indicates it will improve monitoring and reporting functions in the application process and is designed to address the delay concerns as well as provide additional functionality in land management and administration.

The Land Management Division of the Department has restructured the procedure for submitting referrals on land valuation to the Municipal Assessment Agency. The restructured procedure has been fully implemented and valuation is now determined only after the application has been approved.

The Department reports that it has initiated a separate register of EDGE leases in the Crown Lands Registry and established a protocol with the Department of Industry, Trade and Rural Development whereby they are notified of any companies that are granted or lose EDGE status. The Department indicates that there are currently 9 EDGE companies leasing Crown land.

The Department of Government Services and Lands and the Department of Justice have prepared a new lease clause, which will be included in all future EDGE leases, that will allow an earlier revision of the annual rent to the current market value if a company loses its EDGE status.

Management of Crown Land Leases, Licences and Grants

1999 Recommendations

The Department should review its monitoring procedures over land use.

As revenue from leases assists in covering costs of managing Crown lands, the Department should participate in the monitoring of the accounts receivable.

The Department should continue its involvement in the development of both a Geomatics Strategy for the Province and Geographic Information System applications.

Action Taken

The Department reports that there is a Province wide uniform system based on affidavits and follow up spot inspections for all leases to ensure compliance with the development conditions of the lease. Additional compliance inspections are also carried out when Lands personnel are working in an area on other matters.

The Department of Municipal and Provincial Affairs (Municipal and Provincial Affairs provides financial management services to Government Services and Lands) has provided the Comptroller General with the full five-year receivable for those leases where title to the land will be transferred to the lessee after the lease is paid off over 5 years. The Department of Municipal and Provincial Affairs has made efforts to monitor these receivables. For example, accounts receivable staff stamp notices on monthly statements, regular phone contact is made with those leases with outstanding accounts, the Lands Branch has assisted in the collection effort, and some accounts have been added to the master list of Government Debtors. In addition, the Department is reviewing various other options to reduce the number of accounts. This includes the requirement that all leases with annual fees less than $75 be paid five years in advance.

The Department reports that it continues its progress on the Provincial Geomatics Strategy and the Geographic Information System. The intent of the geomatics strategy is to build on the existing processes and promote optimal cooperation in partnership with the local industry. As a result, the Department is continuing its consultation and coordination role within government which has led to common usage of base maps with free data exchange between departments. Also, the Lands Branch of the Department continues to cost share community mapping with other departments, municipal governments, and utilities. Both projects are designed with full web and Government interconnectability capabilities built in. To ensure this, the Lands Branch of the Department has secured co-shared funding and partnered with a private company in the fiscal year 2000-01 to web-enable several layers of geospatial data, with this data to be web shared between several departments.

Department of Health and Community Services

4.2.5 Health Labrador Corporation (1998 Annual Report, Part 3.16)

Introduction

In 1998, we performed a review of the Health Labrador Corporation. Our review was directed primarily to the systems and transactions related to management practices, which included financial position, information systems, budgeting, compliance with the *Hospitals Act*, purchasing, capital assets, inventory, and human resources.

In 1998, we concluded that there were significant weaknesses in all areas reported on. More specifically, there were serious financial problems as indicated by the operating deficits over the years, insufficient cash flow, incomplete and inaccurate financial information, inadequate budgeting process, compensation to senior officials above government policy and non-compliance with the *Hospitals Act* regarding the submission of financial statements and budget. Purchasing practices were insufficient, in such matters as not having sufficient information on the cost of air ambulance services and not complying with the *Public Tender Act*. The controls over capital assets were inadequate and established controls over inventories were not being utilized. Human Resources did not maintain adequate documentation on job competitions and employee leave, and did not conduct job appraisals in accordance with Board policy.

Update

In May 2001, we contacted the Health Labrador Corporation requesting an update as to progress on the comments and recommendations included in our 1998 report. The information provided by the Corporation in response to our request is outlined below.

Financial Management of the Corporation

1998 Recommendation

The Board should monitor its financial position closely. This should include the establishment of an appropriate information system, preparation of a budget in sufficient detail to monitor operations in each of the 18 sites and the periodic review of significant expenditures.

Action Taken

The Corporation indicated that it continues to incur operating deficits and continues to rely heavily on a line of credit. A significant portion of the operating deficit relates to community programs that are mandated under Provincial legislation. The previous financial information system has been replaced with the Meditech financial/medical information system. Detailed budgets are in place and a budget analyst has been recruited to deal more effectively with all aspects of budget development and monitoring. Charges were laid and a guilty verdict returned against the employee who filed duplicate travel claims and received compensation in excess of Government policy.

Compliance Issues

1998 Recommendation

The Board should comply with the Hospitals Act *and government policy.*

Action Taken

As of October 2001, the audit for the year ended 31 March 2000 has commenced and staff are in the final stages of concluding year end processes for the 2000-01 fiscal year. The Corporation does not anticipate incurring excessive accounting fees as year end processes are completed internally. The Corporation has requested an extension from the Department of Health and Community Services for the filing of its financial statements.

Purchases

1998 Recommendations

The Board should comply with the Pubic Tender Act *and regulations.*

The Board should strengthen controls in order to effectively manage patient transportation.

The Board should evaluate all proposals against established criteria and monitor these services to ensure initial objectives are being met.

The Board should establish policies for the monitoring and use of the Corporation's credit cards.

Action Taken

The Corporation intends to adhere to the *Public Tender Act* with respect to its purchases.

The Corporation recognizes that there is significant work to be done with respect to the client transportation deficit and where possible it is attempting to control costs. Effective for the 2001-02 fiscal year, the Corporation has received an additional $800,000 in funding from the Department of Health and Community Services.

The Corporation monitors and evaluates services provided by external contractors and has recently terminated a significant support contract as an efficiency measure.

The Corporation has not indicated its progress with regards to establishing policies for the monitoring of credit cards.

Capital Assets and Inventory

1998 Recommendation

The Board should establish and document standard procedures for control of all of its capital assets and inventories. Compliance with these procedures should be monitored periodically.

Action Taken

Work has been done in identifying capital assets throughout the region. However, additional work needs to be performed in identifying original costs especially for assets transferred upon the formation of the Corporation.

The Corporation continues to work towards improving its controls over inventories.

Human Resources

1998 Recommendations

The Board should ensure that:

- *competition files are maintained and that job competitions are handled objectively both in fact and appearance;*

- *performance appraisals are being conducted in accordance with corporate policies; and*

- *leave and overtime are properly approved and documented.*

Action Taken

The Corporation has purchased job appraisal software and is working towards implementing this software throughout the region. The Corporation is striving to ensure that there is adequate documentation for job competitions and leave requests.

Department of Health and Community Services

4.2.6 The Western Health Care Corporation (1999 Annual Report, Part 3.27)

Introduction

In 1999, we performed a review of the Western Health Care Corporation. Our review was directed primarily to assessing whether the Corporation had taken adequate steps to address issues identified in our 1996 review. More specifically our review included the Corporation's financial position, information systems, budgeting, compliance with the *Hospitals Act*, purchasing, capital assets, inventory, and human resources.

In 1999, we concluded that there were some improvements in the financial management of the Corporation, however there were areas that still needed to be addressed. More specifically: expenditures continued to increase at a faster rate than Provincial funding; while patient receivables had declined, the amount considered uncollectible had increased; the Corporation had failed to collect or account for employee advances; controls over capital assets were still not adequate; and computerized inventory records were not accurate.

Update

In May 2001, we contacted the Western Health Care Corporation requesting an update as to progress on the comments and recommendations included in our 1999 report. The information provided by the Corporation in response to our request is outlined below.

Update on Prior Years' Report Items

1999 Recommendations

The Corporation should:

- *continue to closely monitor its financial position and, in consultation with the Department of Health and Community Services, take action to address the annual deficits;*
- *address the deficiencies in controls over capital assets and inventories as these represent a significant investment of public funds;*
- *comply with Government and Board Policy in such areas as public tendering, travel and employee benefits; and*
- *take steps to address the high costs of staff sick leave.*

Action Taken

Financial Management

The Corporation indicated that the financial reporting system now provides various levels of financial information from a one page Corporate Summary to the Site Summary Reports to the individual Department Detail Reports. In addition, Summary Reports by various expense types, union group and departmental grouping are provided to various internal and external users. All monthly reports are computer generated and available to the appropriate level of staff by the 15th and 20th day of the month following.

The Corporation also advised us that as at 31 March 2001 patient receivables had declined to $845,717 from $1,411,580 in 1999. In addition, 70% of this amount was considered collectible compared to 48.8% at 31 March 1999. Controls over travel advances have improved. At 31 March 2001, 92% of the travel advances of $13,491 were less than 30 days old. All have subsequently been collected. Payroll adjustments from the consolidation of payroll are now recovered when employees terminate. In addition, of the $46,245 in pre 1995 employee loans outstanding at 31 March 1999, a further $6,463 has been collected. Active repayment arrangements are in place for $23,519 of the remaining $39,782.

Capital Assets and Inventories

The Corporation indicated the introduction of the Meditech Computer System has allowed for more accurate inventory records to be maintained. Full inventory counts are now carried out three times per year. In addition, random test counts are carried out on approximately 20 items each week.

The Corporation did not indicate what action, if any, has been taken with regards to improving controls over capital assets.

Government and Board Policy

The Corporation indicated that a process has been implemented which ensures that all invoices over $10,000 are checked to ensure compliance with the *Public Tender Act*. In addition, an information session on the *Public Tender Act* is held annually for all management.

Human Resources

The Corporation indicated that sick leave continues to be a challenge. Further education sessions are planned for the Fall of 2001 to provide managers with an update to the procedures to follow in dealing with sickness related issues.

The Corporation recently transferred 50 NLNU bargaining unit members from casual to permanent. The Corporation anticipates that this will give greater flexibility and should have a positive effect on the ability to grant annual leave requests and on staff morale while at the same time reducing sick leave and overtime costs.

Department of Industry, Trade and Rural Development

4.2.7 Sale of Marystown Shipyard Facilities (1999 Annual Report, Part 3.31)

Introduction

In 1999, we performed a review of Government's divestiture of the Marystown shipyard facilities. Our objectives were to determine the extent of Government's financial investment in the shipyard and to determine whether the provisions of the Asset Purchase Agreement and the Share Purchase Agreement were being complied with.

We concluded that government assistance since 1966 totalled $115 million in capital and operating grants, and $70.9 million in a loan guarantee which was assumed as direct debt of the Province. As well, as part of the sales agreements, the Province maintained performance guarantees totalling approximately $43 million.

We also concluded that: not all conditions of the sales agreement had been met; information provided by Friede Goldman Newfoundland Limited on man hours of work was never verified by Government; the sales agreements do not require Friede Goldman Newfoundland Limited to meet any employment or other requirements after the term of the agreements has passed in December 2000; and no provision was contained in the sales agreements for assets to return to the Province in the event the company does not comply with the agreements or if the company decided to divest itself of the facilities.

Update

In May 2001, we contacted the Department of Industry, Trade and Rural Development requesting an update as to progress on the comments included in our 1999 report.

In a response to our request, the Department indicated that the Share Purchase Agreement set out, among other matters, certain obligations and commitments by Friede Goldman in terms of employment targets and capital expenditures. The Share Purchase Agreement set an annual employment target of 1.2 million man hours for the years 1998, 1999 and 2000. The Agreement also required Friede Goldman to invest between $5 million to $15 million on capital improvements to the facilities, as industry growth requires.

It was further indicated that Friede Goldman met (actually exceeded) its employment target for 1998 (1.7 million man hours) and has formally acknowledged in writing to be in default on its employment targets for 1999 (833, 995 man hours) and 2000 (367,567 man hours). Accordingly, it owes government $10 million in liquidated damages. Government has agreed, in writing, to temporarily suspend demand on these damages pending further business developments within Friede Goldman that have the potential to generate long term incremental benefits for the Marystown area.

With regard to capital improvement to the Marystown facilities, Friede Goldman has confirmed, in writing, an investment of $8.8 million in capital expenditures that is consistent with its undertakings in the Share Purchase Agreement. Departmental officials have received various documents from Friede Goldman, including audited financial statements, to support its claim and are satisfied Friede Goldman has met its obligations in this regard under the Agreement.

Department of Municipal and Provincial Affairs

4.2.8 Municipal Debt (1999 Annual Report, Part 3.34)

Introduction

In 1999, we performed a review of municipal debt, including an assessment of the level of municipal debt within the Province and the identification of policies and procedures in place within the Department of Municipal and Provincial Affairs to monitor and control the level of debt incurred by municipalities.

Our review disclosed serious concerns with respect to the level of municipal debt, the ability of municipalities to administer this debt and the monitoring of debt by the Department. In particular:

- The Department could not provide the total amount of municipal debt at 31 December 1998. Our review of the database of information containing data on total municipal debt revealed that the information was inaccurate and incomplete.
- Debt financed by chartered banks had increased while debt financed by Newfoundland Municipal Financing Corporation (NMFC) had decreased. The Department does not maintain complete and accurate information on debt with chartered banks. As a result, the Department did not know the total financial condition of all municipalities.
- Provincial assistance to municipalities had been decreasing while municipal debt costs had been increasing.
- Arrears to the NMFC had increased significantly. The Department did not know the extent of arrears at the chartered banks.
- Municipalities are not complying with the Municipalities Act. Most do not submit their annual budgets by the 31 December deadline and some had not submitted their 1997 financial statements.

Update

In May 2001, we contacted the Department of Municipal and Provincial Affairs requesting an update as to progress on the comments and recommendations included in our 1999 report. The information provided by the Department in response to our request is outlined below.

1999 Recommendations

The Department should continue with the implementation of its strategic planning initiatives in a timely manner.

The Department should ensure that municipalities are in compliance with the Municipalities Act *and that all financial information required to adequately monitor municipal operations is tra*[illegible] *provide for timely analysis for decision making.*

Action Taken

The Department indicated that of the 288 municipalities required to submit budgets, 281 had submitted budgets prior to 2 April 2001, and of the 262 required to submit financial statements in 1999, 252 had submitted their statements.

The non-guarantee loan data base continues to be updated and improved; however, it should be noted that this information is obtained from the banks on a volunteer basis.

Debt servicing costs continue to decline as older loans are retired, and with regard to NMFC arrears, the Debt Relief program is making progress in this area.

Department of Municipal and Provincial Affairs

4.2.9 Debt Relief Program (1999 Annual Report, Part 3.35)

Introduction

In 1999, we performed a review of the Debt Relief Program, introduced by the Department during 1996-97. The Program was intended to assist municipalities in poor financial condition, through debt refinancing or debt restructuring.

As at 31 March 1999, Government had advanced a total of $17 million in Program funding to the Newfoundland Municipal Financing Corporation for use in mitigating arrears with respect to municipal loans.

Our review disclosed the following:

- Guidelines for the Program had not been formally established, but existed in draft format only. As well, criteria which would determine how much funding a municipality would be entitled to under the program had not been well defined and properly approved.
- Although draft guidelines were to be in effect for the period covered by our review, certain provisions were not complied with.
- The Department had not completed its estimated number of municipalities' reviews.
- Municipalities were not reviewed in the order of priority indicated under the draft guidelines.
- As a condition of funding, the Department required that municipalities meet certain conditions, including conditions relating to municipal taxes. The tax rates established by the Department were not consistent and varied by municipality.
- A comprehensive review of each municipality was to be performed; however, the analyses completed by the Department did not typically address factors which would be expected to be taken into account.
- Our review disclosed that a detailed financial analysis was not completed for all municipalities which were reviewed and received funding.
- The lack of definitive indicators as to qualifications for assistance resulted in a process which was not transparent to the various stakeholders involved.
- Agreements between the Department and individual municipalities were signed prior to receiving approval from the Department of Finance for allocation from the reserve fund held by the Newfoundland Municipal Financing Corporation.
- Monitoring and reporting mechanisms established to measure success towards achieving Program objectives have not been complied with.

Update

In May 2001, we contacted the Department of Municipal and Provincial Affairs requesting an update as to progress on the comments and recommendations included in our 1999 report. The information provided by the Department in response to our request is outlined below.

1999 Recommendation

The Department should ensure that programs developed to address municipal debt issues, such as the Debt Relief Program contain the following elements:

- *well defined and formally approved program objectives and funding criteria;*
- *approved guidelines defining program objectives, organizational structure, processes, and expected outcomes; and*
- *a process to adequately monitor and report progress towards program objectives.*

Action Taken

The Department indicated that Program Guidelines had been developed setting out the program objectives and criteria for dealing with funding requests for financial assistance. As well, a monitoring process has been implemented to ensure that the Debt Relief Program objectives are met, and training programs have been offered for municipal staff and elected officials. A revised cost sharing ratio has also been developed to provide infrastructure to municipalities on an affordable basis.

The Department further advised that there are ongoing efforts with stakeholders to encourage municipal restructuring and sharing of services.

Treasury Board Secretariat

4.2.10 Cellular Phones in Government (1999 Annual Report, Part 3.5)

Introduction

In 1999, we conducted a review of how cell phones were acquired and administered by departments of Government.

We concluded that many Government departments did not have adequate control over the acquisition and administration of cellular phones, and not all departments had developed procedures to verify receipt of cellular service and approve invoices for payment. In particular, we found that:

- Many departmental records of cellular phones were incomplete and inaccurate.
- Some departments were paying for cellular phones that were not in use.
- There was no indication at many departments that cellular phone call invoices were being verified and approved, and that unusual calls were being investigated.

Update

In May 2001, we contacted the Treasury Board Secretariat requesting an update as to progress on the comments and recommendations included in our 1999 report. The information provided by the Secretariat in response to our request is outlined below.

1999 Recommendations

Given the increasing costs of cellular telephone service, Government should approve a policy on the acquisition and administration of cellular telephones, and instruct Government departments to charge the cost of cellular telephones to a separate account.

Given the increasing number of cellular telephones, Government should prepare and issue a cellular telephone directory listing.

Action Taken

Treasury Board Secretariat advised departments in June 2000 that responsibility for the administration and control over cellular phones rests with each department. The Secretariat also advised departments that cellular phones should only be provided where the need is established by the requirements of the job, standard purchasing policies should be followed when acquiring cellular phones, an inventory and internal directory of cellular phones should be maintained, and cellular phone invoices should be verified and approved when they are received. Departments were also informed that a separate account had been established to record charges related to cellular phone costs.

Treasury Board Secretariat has indicated that it does not believe that a Government wide cellular phone directory is a viable option as this may result in increased cellular phone use if the public were aware of cellular phone numbers. Treasury Board also indicated that this could compromise communications between Government executive and Government employees as the employees would likely turn their phones off after hours to avoid the potential barrage of public phone calls.

Treasury Board Secretariat

4.2.11 Human Resource Management Information System (1999 Annual Report, Part 3.7)

Introduction

The payment of salaries and benefits for public employees is Government's largest expenditure. Total salaries and benefits, including government departments and Crown agencies, totalled $1.5 billion in 2000-01 ($1.4 billion 1999-2000). Of this $1.5 billion, government departments accounted for $336 million comprised of $295 million in salaries and $41 million in employee benefits. Given the magnitude of these expenditures, it is critical that Government have the ability to analyze, monitor and control its human resources and related expenditures.

Government established a Steering Committee in 1987 to develop a comprehensive computerized Human Resource Management Information System with implementation scheduled for early 1993 at an estimated cost of $2.1 million. The human resource management information system project was intended to integrate the payroll and other human resource systems within Government.

In 1993 we examined human resource management at Treasury Board Secretariat and reported that there was a delay in implementing the planned system. We also reported that existing human resource systems and information in Government were as diverse and incompatible as they were in 1987 when the project started.

In 1994, Government agreed in principle with a single centralized payroll system to administer the compensation budgets of all boards, agencies and commissions and directed Treasury Board to proceed with a feasibility study and development of an implementation plan on a priority basis.

In 1999, we conducted a review of the development of the Human Resource Management Information System to determine the progress that was made since 1987. We concluded that as at 31 March 1995, Government had spent approximately $4.3 million on this system and that no further significant costs had been incurred. At the time of our review, Government had only developed or partially developed 5 of the 17 functional areas that were identified as necessary to address in order to have the required system, and had made enhancements to 4 functional areas. We concluded that Government still did not have an adequate Human Resource Management Information System.

Update

In May 2001, we contacted the Treasury Board Secretariat requesting an update as to progress on the comments and recommendation included in our 1999 report. The information provided by the Secretariat in response to our request is outlined below.

1999 Recommendation

Treasury Board Secretariat should implement a comprehensive human resource management information system.

Action Taken

Treasury Board Secretariat continues to disagree with our recommendation that Government develop a comprehensive human resource management information system; however, it does intend to review and address current day requirements, utilizing a modular approach, as funding and resources permit. Treasury Board Secretariat has also advised that in the past year, it has increased efficiencies in certain areas, including combining the Department of Works, Services and Transportation open vote payroll system with the civil service payroll system, and enhancing the payroll and position administration modules of the Genesys system.

CHAPTER

5

GENERAL MATTERS AND WORK OF THE AUDIT OFFICE

CHAPTER
5
General Matters and Work of the Audit Office

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5.1 Operations of the Office of the Auditor General

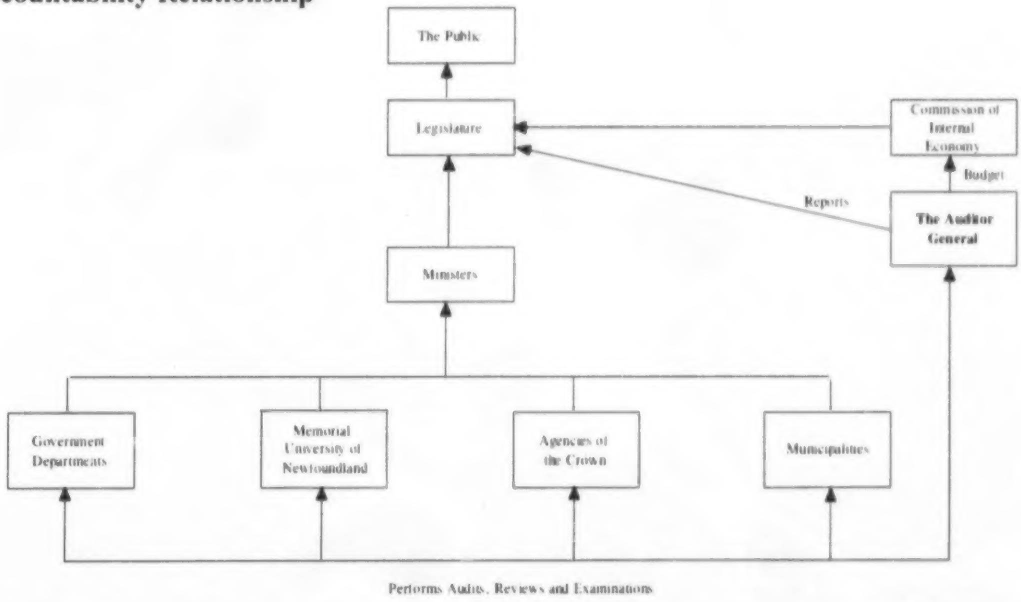
Mandate and Objectives

The Office of the Auditor General operates under the authority of the *Auditor General Act* which was assented to 31 October 1991. The full text of the *Auditor General Act* is presented as Appendix I to this Report. The Auditor General is appointed for a 10 year non-renewable term as an officer of the House of Assembly and is the independent Legislative Auditor of Government, its departments, all agencies of the Crown and Memorial University of Newfoundland. Implicit in the *Auditor General Act* is the requirement for the Auditor General to provide the House of Assembly with timely, relevant information, necessary to enhance public sector accountability and performance.

Public sector accountability is based on the premise that governing bodies are best served by knowing whether the responsibilities conferred on government departments and agencies are satisfactorily performed and intended results are achieved. The Auditor General brings an independent audit process to the manner in which these conferred responsibilities are discharged in the public sector and reports directly to the House of Assembly on the results of these audits. The role of the Auditor General complements the accountability relationship which exists between Government, its departments, agencies of the Crown, Memorial University of Newfoundland, municipalities, and the House of Assembly, as illustrated in Figure 1.

Figure 1

Office of the Auditor General Accountability Relationship



Reports

The Auditor General reports to the House of Assembly on significant matters which result from the examinations of Government, its departments and agencies of the Crown and Crown controlled corporations.

Our process for conducting examinations provides senior officials with an opportunity to meet and discuss the scope and objectives of our work before it commences. Furthermore, reports resulting from our examinations includes our conclusions, findings and recommendations and are reviewed with senior officials before being included in the Annual Report to the House of Assembly. This validation process allows the senior officials the opportunity to provide any new or additional information that may not have been previously provided.

The Auditor General is also the independent auditor of the Province's financial statements and the financial statements of many agencies of the Crown and, as such, expresses an opinion on these financial statements.

A list of Departmental audits performed by our Office is included as Appendix II of this Report. A list of agencies of the Crown and other entities whose financial statement audits are performed by our Office is included as Appendix III of this Report. A list of agencies of the Crown and other entities whose financial statement audits are performed by private sector auditors is included as Appendix IV of this Report.

Section 12 of the *Auditor General Act* requires the Auditor General to report on:

- the work of the office;
- whether, in carrying out the work of the office, the Auditor General received all the information including reports and explanations required;
- the results of the examination of the Province's financial statements;
- audits, examinations and inquiries performed under the Act; and
- the results of the examination of the accounts of the Province calling attention to anything the Auditor General considers significant relating to:
    - collections of public money;
    - disbursements of public money;

- instances where accounts have not been faithfully and properly kept;
- instances where assets acquired, administered or otherwise held are not adequately safeguarded or accounted for;
- instances where accounting systems and management control systems that relate to revenue, disbursements, the safeguarding or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with; and
- any factors or circumstances relating to an expenditure of public money which in the opinion of the Auditor General should be brought to the attention of the House of Assembly.

Mission and Values

The Office of the Auditor General initiated a strategic planning process in August 1994 and completed its first Strategic Plan in June 1995. The Plan was updated in 1996 and again in 1999 and now focuses on the priorities and initiatives of the Office to 2002. The strategic planning process required the development of an office mission statement and identification of our values as follows:

Mission Statement

The Office of the Auditor General serves the House of Assembly by providing independent examinations of Government and its entities.

As legislative auditors, we audit financial statements and other accountability documents, evaluate management practices and control systems, and determine compliance with legislative and other authorities.

Our purpose is to promote accountability and encourage positive change in the stewardship, management and use of public resources.

Values

We believe in independence for our Office, integrity in our conduct and quality in our work. Therefore, we will:

Maintain our independence and avoid the perception of bias;

Strive for excellence in our work and seek continuous improvement in our use of technology, methodology and training;

Treat all external parties with courtesy and respect; and

Conduct ourselves according to the highest professional standards.

We believe everyone should be treated with fairness and respect. Therefore, in our Office, all employees:

Are recognized and valued for contributions;

Communicate openly and work together as a team;

Receive necessary opportunities for professional and personal growth; and

Are accountable for quality performance and encouraged to improve processes.

Our Work

The development of our Strategic Plan resulted in the identification of five main lines of business which serve as a means of determining priorities and allocating resources. The Plan also resulted in the establishment of goals that we now use to measure our progress. The five lines of business, related goals and results to date are outlined as follows:

1. Financial Statement Audits

A financial statement audit enables the Auditor General to express an opinion as to whether the financial statements present fairly the subject matter with which they deal. The opinion is based on an independent assessment and therefore adds credibility to the information to which it is attached.

Goal 1.1

To complete all financial statement audits by the established deadlines.

Status

All financial statements presented for audit as required were completed by the established deadlines. There were, however, four entities whose financial statements, because of late submission to our Office, were not completed by the established deadline.

Appendices III and IV indicate the audits completed by the Auditor General and the private sector auditors respectively, their fiscal year ends and the date of the Auditor's Report.

Goal 1.2

To assess the time budget for each area of each financial statement audit to determine whether audit procedures can be reduced or eliminated.

Status

At the conclusion of each financial statement audit, each audit time summary is reviewed in detail and compared with the original time budget. Prior to the commencement of the following year's audit, as part of the planning phase, the time budget is reviewed to determine whether there are areas where the audit time can be reduced. While improvements have been made in this area, we are continuing our efforts in this area.

Goal 1.3

To complete all financial statement audits within a 10% variance of budget for time and cost.

Status

The majority of financial statement audits were completed within a 10% variance of budget for time and cost. Any variations were caused by the particular circumstances associated with the entities being audited.

Goal 1.4

To have 100% compliance with professional standards and internal Office policy for all audits.

Status

All financial statement audits were conducted in accordance with professional standards and internal Office policy.

2. Legislative Audits

Legislative audits provide the House of Assembly with an independent professional assessment of public sector accountability, thereby facilitating informed judgements on the manner in which the public sector discharges its responsibilities. Legislative audits may include: evaluation of accountability relationships, management practices and control systems; assessment of compliance with legislation and other authorities; and performance audits of program results compared to established criteria.

Goal 2.1

We will apply our risk based management system to our Office's audit universe each year to select audit projects.

Status

The computerized risk based audit management system is used in planning for all audit cycles each year.

Goal 2.2

To provide the House of Assembly with an annual accountability document on the Office of the Auditor General.

Status

This chapter provides the accountability report on the Office for the 2000-2001 year. This includes the financial statements of the Office and a report on the goals of the Office along with their status at report date.

Goal 2.3

To have 80% of our recommendations implemented within 2 years of our report date.

Status

In 1996, we established a system to measure the extent to which Government implements our recommendations. It is our intention to monitor and update the recommendations in each Annual Report two years after it has been issued. Monitoring will continue until we are reasonably satisfied that the issues are being adequately addressed or are no longer valid.

Overall for the six years from 1994 to 1999, satisfactory progress has been made on 88.5% of our recommendations or the recommendations are no longer applicable. The percentages for each year are 1994 (90.5%), 1995 (88.9%), 1996 (94.1%), 1997 (96.3%), 1998 (88.0%) and 1999 (83.3%).

Goal 2.4

To have all reports subjected to quality control criteria and a challenge review process.

Status

All legislative reports are subject to quality control criteria and a formal challenge review process.

Goal 2.5

To complete legislative audit fieldwork by 30 April.

Status

In general, we plan to perform our legislative audit fieldwork during the period January 1 to April 30 of each year. We then plan to perform our financial statement audits during the period May 1 to June 30. We generally carry out our audit work on the Public Accounts of the Province during the period July 1 to October 15. We then complete our process of validating the findings of our legislative audit work with senior officials prior to issuing final reports and completion of our Annual Report for tabling in December.

In general, our legislative audit fieldwork was completed prior to 30 April.

3. Monitoring Crown Agency Reports

Our role is to assess all of these entities over an appropriate number of years and to report on their accountability, management practices and control systems, their compliance with legislation, their performance related to established criteria, and any weaknesses or other issues which we feel should be brought to the attention of the House of Assembly.

Goal 3.1

To monitor Crown agency financial statements and other reports throughout the year using a computerized database to maintain the results.

Status

We have developed and are using a database system to maintain the financial statements, reports and other information of all agencies of the Crown.

Goal 3.2

To report on the monitoring of Crown agency financial statements and other reports to the House of Assembly on an annual basis.

Status

Part 3.1 of this Report contains the results of this work for the 2000-2001 year.

4. Special Assignments

Under section 16 of the *Auditor General Act*, the Auditor General may accept assignments from the House of Assembly, the Public Accounts Committee and the Lieutenant-Governor in Council. The results of these assignments are reported to the body making the request.

Goal 4.1

To perform and report on special assignments whenever requested by the House of Assembly, Public Accounts Committee or the Lieutenant-Governor in Council.

Status

While we have completed a number of special assignments in recent years, there were no special assignments during the 2000-2001 fiscal year.

Goal 4.2

To report on all special assignments conducted within six months of beginning our work.

Status

There were no special assignments during the 2000-2001 fiscal year.

Goal 4.3

To subject all special assignment reports to quality control criteria and a challenge review process.

Status

While there have been no special assignments during the 2000-2001 fiscal year, our quality control and challenge review process requires that all audits, reviews, or assignments be subject to quality control criteria and a formal challenge review process.

5. Reporting

The *Auditor General Act* requires that we report, at least annually, to the House of Assembly on the results of our examination of the Province's financial statements and on the results of any audits, examinations or inquiries which we have performed. In addition, when we have completed a financial statement audit, we attach our auditor's report to the financial statements and issue a management letter to the entity examined. When we perform a legislative audit, we issue a management report which includes the entity's response to any comments made.

Goal 5.1

To report on legislative audits in November of each year. To report on the financial statements of the Province and the monitoring of Crown agencies each November.

Status

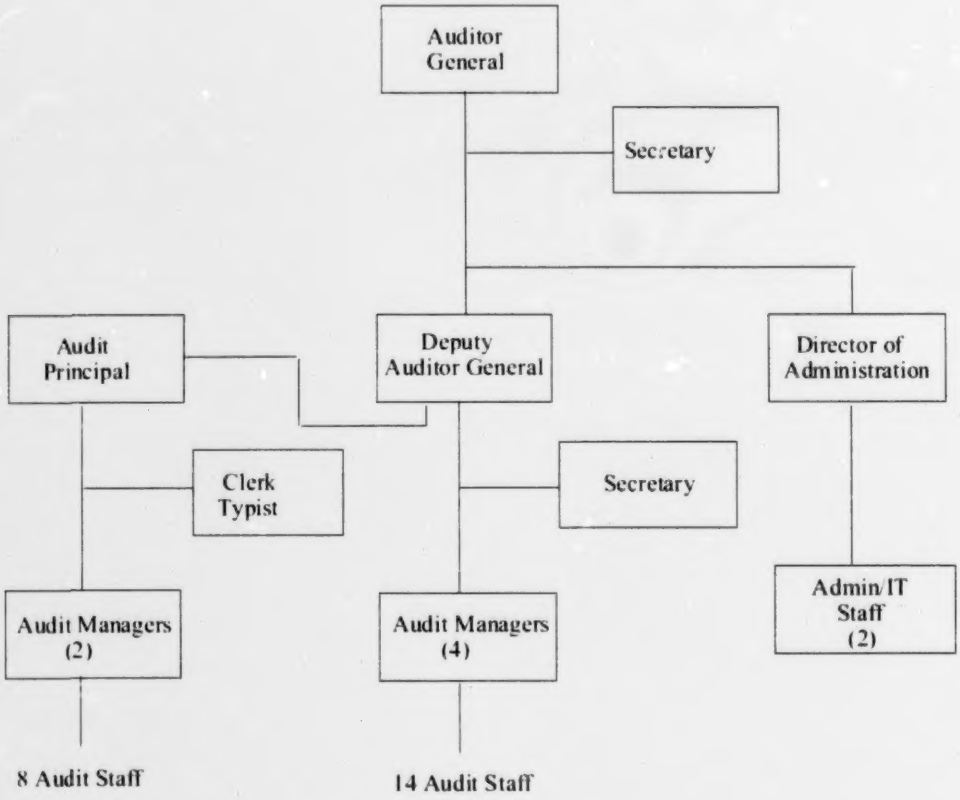
This Report and our Report on the Audit of the Financial Statements of the Province which accompanies it contain our comments on legislative audits and the audit of the financial statements of the Province for the year ended 31 March 2001.

Organization

Our employees are our most valuable resource because it is their knowledge and skill that determine the quality of the work that is performed. The Office is organized to allow for the efficient and effective deployment of staff and to support our work. The organizational structure of the Office is outlined in Figure 2.

Figure 2

Office of the Auditor General
Organization Chart



There are three support services in the Office with the following responsibilities:

Administration - provides strategic and policy advice on human resource management, financial management and report publishing initiatives. At the operational level, this area also provides such services as recruitment, payroll, secretarial support, file registry and purchasing.

Professional Practice - provides technical advice on accounting and auditing policy and practice matters. This area reviews current and emerging accounting and auditing issues within the public sector and provides comments to professional bodies and central agencies. This area also performs quality control reviews of all financial statements and certain other reports issued by the Office.

Information Technology - provides consultation and technical support on all matters dealing with information technology. This area is responsible for implementation of the Office's information technology strategic plan. It also monitors technological developments relevant to the Office, provides ongoing operational support and assists in training activities.

The Office had 37 employees as of 30 November 2001, 32 in the St. John's Office and 5 in the Corner Brook Office. Of the 37 employees, 26 have professional accounting designations and 5 are in the process of completing their professional accounting program. Figure 3 indicates the Auditor General and the staff of the Office as at 30 November 2001.

Figure 3

Office Staff
30 November 2001

Kevin Antle CGA
Paul Burggraaf CNA
Keith Butt CA
John Casey CMA
Rosemarie Crann
Gertrude Critch
Tony Dingwell CA
Bill Drover FCA
Virginia English CGA
Gregg Griffin
Claude Janes CA
Michelle Jewer CA
Scott Jones
Brenda Kavanagh
Lynn Kendall CGA
Nancy King
Wayne Loveys CMA
James Mallard CGA
Elizabeth Marshall CA
Trevor McCormick CGA
Julia Mullaley CA
Bill Noftall
John Noseworthy CA
Lisa Palmer CA
Steve Pearce CA
Tracy Pelley CMA
Deann Penney CA
David Ralph CA
Tony Roestenberg CA
Sandra Russell CA
Tracey Slaney
Jackie Smith
Denise Tubrett CGA
Scott Walters CA
David White FCGA
Jim Winsor CMA
Tony Wiseman

Professional Development and Training

A program of ongoing training and professional development of staff is essential to ensure that staff keep current with new auditing techniques used in the profession. This program consists of on-the-job training, external and in-house courses, and seminars.

We continue to encourage our staff to pursue and complete programs of study which enable them to obtain professional accounting designations. We are pleased to note that during the year the following members of our staff obtained their professional accounting designation.

- Michelle Jewer, CA
- Deann Penney, CA

We wish continued success to the five members of our staff who are now studying towards a professional accounting designation.

Financial Statements

The gross expenditures of the Office totalling $2,125,716 for the year ended 31 March 2001 were within the limits of the approved budget. The following is the financial information for the Office which is included as part of the Public Accounts of the Province and is also separately tabled in the House of Assembly.

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND AND LABRADOR
SCHEDULE OF ASSETS AND LIABILITIES
31 MARCH 2001

	2001	2000
ASSETS		
Current		
Audit fees billed and in progress	**$ 53,398**	$ 59,695
Travel imprests	**1,500**	1,200
Accountable advance	**200**	200
	$ 55,098	$ 61,095
LIABILITIES		
Current		
Accrued leave	**$317,695**	$273,641
Vouchers/HST payable	**5,336**	7,786
Accrued payroll	**21,355**	18,520
Accrued severance pay	**394,794**	363,261
	$739,180	$663,208

See accompanying notes

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND AND LABRADOR
SCHEDULE OF EXPENDITURE AND RELATED REVENUE
FOR THE YEAR ENDED 31 MARCH 2001

		Estimates	
	Actual	Amended	Original
EXECUTIVE SUPPORT			
Salaries	$ 116,452	$ 116,598	$ 116,498
Salaries (Statutory)	98,675	98,702	98,702
Employee Benefits	1,037	4,800	4,800
Transportation & Communications	17,275	18,500	17,000
Professional Services	-	1,500	14,500
Purchased Services	236	700	700
	233,675	240,800	252,200
ADMINISTRATIVE SUPPORT			
Salaries	185,348	186,200	177,800
Employee Benefits	1,025	1,400	3,400
Transportation & Communications	25,003	28,200	28,200
Supplies	17,967	18,100	15,100
Purchased Services	149,480	151,300	151,300
Property, Furnishings & Equipment	13,343	15,000	3,000
Grants and Subsidies	5,700	8,500	8,500
	397,866	408,700	387,300
AUDIT OPERATIONS			
Salaries	1,410,337	1,416,400	1,434,400
Employee Benefits	7,365	20,000	10,000
Transportation & Communications	50,871	78,000	79,500
Professional Services	-	5,000	15,000
Information Technology	124,277	124,700	109,300
	1,592,850	1,644,100	1,648,200
Revenue - Provincial	(168,387)	(157,800)	(157,800)
	1,424,463	1,486,300	1,490,400
Net Expenditure	$ 2,056,004	$ 2,135,800	$ 2,129,900

See accompanying notes

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND AND LABRADOR
STATEMENT OF GROSS EXPENDITURE AND UNEXPENDED BALANCES
FOR THE YEAR ENDED 31 MARCH 2001

Original estimates (net)	$2,129,900
Add back revenue estimates net of transfers and statutory payments	59,098
Original estimates of expenditure	2,188,998
Supplementary supply	-
Total appropriation	2,188,998
Total net expenditure	2,056,004
Add revenue less transfers and statutory payments	69,712
Total gross expenditure (budgetary, non-statutory)	2,125,716
Unexpended balances of appropriation	$ 63,282

Summary of Cash Payments and Receipts

	Payments	Receipts	Net
Current Account	$2,224,391	$ 168,387	$2,056,004

See accompanying notes

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL INFORMATION
31 MARCH 2001

Authority

Section 3 of the *Auditor General Act* provides for the establishment of a department of the public service of the province called the Office of the Auditor General. This Act was assented to on 31 October 1991.

1. Significant accounting policies

This financial information has been prepared by the Office of the Auditor General using an accrual basis of accounting, except revenues as reported in the Statement of Expenditure and Related Revenue which are recorded when invoiced. Outlined below are the significant policies followed:

(a) Assets and liabilities

Assets and liabilities are recorded on a basis consistent with the policies used in preparing the Public Accounts of the Province of Newfoundland and Labrador. Direct liabilities and convertible assets such as amounts receivable are reported in the Schedule of Assets and Liabilities.

(b) Operating expenses

The employer's portion of government personnel costs is paid by the Department of Finance and is not reflected in this financial information.

(c) Capital assets

Capital asset acquisitions are charged as budgetary expenditures and are expenses in the year they are acquired. The assets are not considered to be convertible and therefore are not capitalized and are not valued on the Schedule of Assets and Liabilities.

(d) Income taxes

The Office of the Auditor General is not subject to Provincial or Federal income taxes.

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL INFORMATION
31 MARCH 2001

2. Pensions

Under the *Auditor General Act*, all persons employed in the Office of the Auditor General are employees for the purposes of the *Public Service Pensions Act, 1991*, and are entitled to all the benefits under that Act. No pension expenditure has been recorded in this financial information.

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APPENDICES

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Auditor General Act

1. This Act may be cited as the *Auditor General Act.*

2. (1) In this Act

(a) "agency of the Crown" means an authority, board, commission, foundation, agency, corporation, association, institute or other body of persons, whether incorporated or unincorporated, 50% or more of the members of which or 50% or more of the members of the board of management or board of directors of which,

(i) are appointed by an Act of the Legislature or by the Lieutenant-Governor in Council, or

(ii) where not so appointed, in the discharge of their duties are public officers or servants of the Crown or are responsible to the Crown for the proper discharge of their duties;

(b) "audit" means an audit or examination of accounts of public money that may be made by the auditor general under this Act;

(c) "auditor general" means the Auditor General of Newfoundland appointed under section 4;

(d) "commission" means the Commission of Internal Economy of the House of Assembly appointed under the authority of *The Internal Economy Commission Act*;

(e) "Crown controlled corporation" means a corporation that is not an agency of the Crown and having

(i) 50% or more of its issued and outstanding shares vested in the Crown or in the name of a minister of the Crown, or

(ii) the appointment of a majority of its board of directors made or approved by the Lieutenant-Governor in Council;

(f) "office" means the Office of the Auditor General established under section 3; and

(g) "public money" means all money received, held or collected for or on behalf of the province by a minister of the Crown or other public officer in his or her official capacity or by a person authorized to receive, hold or collect that money, and includes

(i) all revenues of the province,

(ii) money borrowed by the province or received through the issue and sale of securities, and

(iii) money paid to the province for a special purpose.

(2) Words and expressions used in this Act and not defined in subsection (1) have the same meaning as in the *Financial Administration Act*.

3. There is established a department of the public service of the province called the Office of the Auditor General, over which the auditor general shall preside.

4. (1) The Lieutenant-Governor in Council shall, by commission under the Great Seal of the province, appoint a qualified auditor to be the officer called the Auditor General of Newfoundland.

(2) The person appointed to the position of auditor general under this section must be confirmed in office as auditor general by the introduction in the House of Assembly of a resolution within 10 days after his or her appointment and if the House of Assembly is not sitting within 10 days after the commencement of the next ensuing Session of the House of Assembly or within 10 days after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

(3) The auditor general is by virtue of his or her position an officer of the House of Assembly.

5. (1) The auditor general holds office for a term of 10 years but may be removed for cause by the Lieutenant-Governor in Council following the passing by the House of Assembly of a resolution requesting the Lieutenant-Governor in Council to do so.

(2) Once having served as auditor general, a person is not eligible for reappointment to that office.

6. In the event of the absence or incapacity of the auditor general or where the Office of Auditor General is vacant, the Lieutenant-Governor in Council may appoint a person temporarily to perform the duties of the auditor general.

7. The auditor general shall be paid a salary out of the Consolidated Revenue Fund at a rate set by the Lieutenant-Governor in Council and is entitled to the privileges of office of a deputy minister.

8. The auditor general shall not hold an office of profit or shall not act as trustee for profit for another person, other than his or her office as auditor general or engage in an occupation for reward outside the duties of his or her office.

9. (1) Before entering upon his or her duties, the auditor general shall

(a) take or make and sign the Oath or Affirmation of Allegiance under the *Oaths of Office Act*; and

(b) take or make and sign the following oath or affirmation of office:

"I, ..., do solemnly swear (or solemnly, sincerely and truly declare and affirm) that I will faithfully, truly, impartially, honestly, justly and to the best of my judgment, skill and ability, execute and perform the powers, duties and functions reposed in or required of me as auditor general under the *Auditor General Act* or another Act and that I will observe and comply with the laws of Canada and Newfoundland." (Where an oath is taken add "So help me God").

(2) The oaths or affirmations referred to in subsection (1) shall be administered by the Speaker or by the Clerk of the House of Assembly.

10. The auditor general is the auditor of the financial statements and accounts of the province and shall make those examinations and inquiries that the auditor general considers necessary to enable him or her to report as required by this Act.

11. The auditor general shall examine the several financial statements required by the *Financial Administration Act* to be included in the public accounts of the province, and any other statement that is required to be audited by the auditor general under that Act or another statement that the Minister of Finance may present for audit and shall express his or her opinion as to whether the financial statements present fairly the financial position, results of operations and changes in the financial position of the province in accordance with the disclosed accounting policies of the provincial government and on a basis consistent with that of the preceding year, together with reservations the auditor general may have.

12. (1) The auditor general shall as he or she considers necessary but at least annually report to the House of Assembly on

(a) the work of the office;

(b) whether, in carrying out the work of the office, the auditor general received all the information including reports and explanations the auditor general required;

(c) the results of the auditor general's examination of the financial statements referred to in section 11; and

(d) audits, examinations and inquiries performed under this Act.

(2) A report of the auditor general under subsection (1) shall include the results of the auditor general's examination of the accounts of the province, and shall call attention to anything the auditor general considers significant, including instances where

(a) collections of public money

(i) have not been effected as required under various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts;

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements,

(iii) have not been properly reflected in the accounts, or

(iv) have not been made for the purposes for which it was appropriated;

(c) accounts have not been faithfully and properly kept;

(d) assets acquired, administered or otherwise held are not adequately safeguarded or accounted for;

(e) accounting systems and management control systems that relate to revenue, disbursements, the safeguarding or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with; or

(f) factors or circumstances relating to an expenditure of public money which in the opinion of the auditor general should be brought to the attention of the House of Assembly.

(3) Paragraph (2)(f) shall not be construed as entitling the auditor general to question the merits of policy objectives of the government.

13. (1) Each report of the auditor general referred to in section 12 shall be submitted to the Speaker of the House of Assembly and the Speaker shall table each report before the House of Assembly immediately after receipt of the report by him or her or, where the House of Assembly is not then in Session, on the 1st day of the commencement of the next ensuing Session of the House of Assembly or on the 1st day after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

(2) The annual report of the auditor general shall be submitted on or before January 31 following the close of the fiscal year to which the report relates.

14. (1) Where an auditor has not been appointed to audit an agency of the Crown or a Crown controlled corporation, the auditor general shall be the auditor.

(2) Where the auditor of an agency of the Crown or of a Crown controlled corporation is other than the auditor general, the auditor shall

(a) deliver to the auditor general after completion of the audit a copy of the auditor's report, his or her recommendations to management and a copy of the audited financial statements of the corporation or agency;

(b) make available immediately to the auditor general, when so requested by the auditor general, all working papers, reports, schedules and other documents in respect of the audit; and

(c) provide immediately to the auditor general, when so requested by the auditor general, a full explanation of work performed, tests and examinations made and the results obtained, and other information relating to the audit within the knowledge of that auditor in respect of the agency or corporation.

(3) Where the auditor general is of the opinion that the information, explanation or document that is provided, made available or delivered to the auditor general by the auditor referred to in subsection (2) is insufficient to permit the auditor general to exercise his or her powers or duties under this Act, the auditor general may conduct or cause to be conducted an additional examination and investigation of the records and operations of the agency of the Crown or the Crown controlled corporation that the auditor general considers necessary.

15. (1) Where during the course of an audit, the auditor general becomes aware of an improper retention or misappropriation of public money or another activity that may constitute an offence under the *Criminal Code* or another Act, the auditor general shall immediately report the improper retention or misappropriation of public money or other activity to the Lieutenant-Governor in Council.

(2) In addition to reporting to the Lieutenant-Governor in Council under subsection (1), the auditor general shall attach to his or her annual report to the House of Assembly a list containing a general description of the incidents referred to in subsection (1) and the dates on which those incidents were reported to the Lieutenant-Governor in Council.

16. (1) The auditor general may, where in his or her opinion such an assignment does not interfere with the auditor general's primary responsibilities under this Act, whenever the Lieutenant-Governor in Council so requests or the House of Assembly or the Public Accounts Committee by resolution so requires, inquire into and report on a matter relating to the financial affairs of the province or to public property or inquire into and report on a person or organization that has received financial aid from the government of the province or in respect of which financial aid from the government of the province is sought.

(2) Where the auditor general makes a report in accordance with subsection (1), the auditor general shall report back to either the Lieutenant-Governor in Council, the House of Assembly or the Public Accounts Committee.

17. Except as provided by another Act that expressly refers to this section, every department of government, every agency of the Crown and every Crown controlled corporation shall furnish the auditor general with information regarding its power, duties, activities, organization, financial transactions and methods of business as the auditor general requires, and the auditor general shall be given access to all books, accounts, financial records, reports, electronic data processing records, explanations, files and all other papers, things or property belonging to or in use by the department, agency of the Crown or Crown controlled corporation and necessary to the performance of the duties of the auditor general under this Act.

18. (1) The auditor general may examine a person on oath or affirmation on a matter pertinent to an account submitted to the auditor general for audit and the oath or affirmation may be administered by the auditor general to a person whom the auditor general desires to examine.

(2) In order to compel the attendance of a person under subsection(1), the auditor general may apply to a judge of the Trial Division for an order that a subpoena be issued from the court commanding the person named in the subpoena to appear before the auditor general at the time and place mentioned in the subpoena, and then and there to testify to all matters within that person's knowledge relative to an account submitted to the auditor general.

(3) Where so required, the person named in the subpoena shall produce a document, paper or thing which he or she has possession of relative to the account.

(4) A person named in a subpoena issued under this section is entitled to reasonable expenses at the time of the service.

19. Notwithstanding sections 17 and 18, the auditor general shall not be permitted access to reports arising out of the conduct of lawful police investigations or to information in the records listed in paragraphs 9(1)(b) to (f) of the *Freedom of Information Act* except for the information in the records disclosed under subsection 9(2) of that Act.

20. The auditor general may station in the offices of a department, agency of the Crown or Crown controlled corporation, an employee of the office for the purpose of enabling the auditor general to more effectively exercise or perform his or her powers and duties under this or another Act, and the department, agency of the Crown or Crown controlled corporation shall provide the necessary office accommodation and facilities for employees so stationed.

21. The auditor general and each person employed in the office or appointed or engaged to assist the auditor general for a limited period of time or in respect of a particular matter under section 28 shall keep confidential all matters that come to his or her knowledge in the course of his or her employment or duties under this Act and shall not communicate those matters to another person, except as may be required in connection with the discharge of his or her responsibilities under this Act or under the *Criminal Code.*

22. Audit working papers of the office shall not be laid before the House of Assembly or a committee of the House of Assembly.

23. (1) Those auditors and employees that are necessary to enable the auditor general to perform his or her duties under this or another Act shall be appointed or employed in the manner authorized by law and are members of the public service of the province.

(2) The personnel management policies of the Treasury Board as they relate to the public service of the province apply to the office.

(3) The *Conflict of Interest Act* applies to the auditor general and every person employed in the office.

24. (1) Every person employed in the office, shall, before performing a duty as an employee in the office

(a) take or make and sign the Oath or Affirmation of Allegiance under the *Oaths of Office Act;* and

(b) take or make and sign the following oath or affirmation of office:

> "I ...., do swear (or solemnly, sincerely and truly, declare and affirm) that I will faithfully, honestly and impartially to the best of my knowledge, skill and ability perform my duties as an employee in the Office of the Auditor General and that I will observe and comply with the laws of Canada and Newfoundland and except as I may be legally required, I will not disclose or give to a person information or a document that comes to my knowledge or possession by reason of my being an employee in the Office of the Auditor General." (In the case where an oath is taken add "So help me God").

(2) The oaths or affirmations referred to in subsection (1) shall be administered by the auditor general or his or her designate.

(3) The auditor general may require a person or class of persons appointed to assist the auditor general for a temporary period of time or in respect of a particular matter under section 28 to take or make and subscribe the oaths or affirmations referred to in subsection (1).

(4) A copy of each oath or affirmation administered to an employee of the office under subsection (1) shall be kept in the files of the office.

(5) The refusal of an employee of the office to take or make and subscribe to the oaths or affirmations or the failure to adhere to the oaths or affirmations required by subsection (1) may be considered as cause for dismissal.

25. (1) All persons employed in the office are employees for the purposes of the *Public Service Pensions Act, 1991* and are entitled to all the benefits under that Act.

(2) Notwithstanding subsection (1), the LieutenantGovernor in Council may by order permit the auditor general to participate in the *Public Service Pensions Act, 1991* or may by order stipulate other pension arrangements for the auditor general upon his or her appointment under this Act.

26. The auditor general may delegate in writing to an employee of the office authority to exercise a power or perform a duty of the auditor general other than reporting to the House of Assembly.

27. The auditor general may appoint an employee of the office as acting auditor general while the auditor general is absent from the province.

28. The auditor general may engage, on a fee basis, a person to act as his or her agent for the purpose of conducting an audit or examination that the auditor general is empowered to conduct or to perform a service that the auditor general considers necessary for a purpose related to the exercise or performance of the auditor general's powers and duties under this or another Act.

29. The auditor general, persons employed in the office and those persons employed or engaged by the auditor general under the authority of section 28 are not liable in a proceeding for an act done or not done or for a statement or report made by them in good faith in connection with a matter they are authorized or required to do under this Act.

30. Subject to the *Public Tender Act*, the auditor general may engage within the limits of the appropriation approved by the Legislature for his or her office and without the approval of the Treasury Board the professional services, including counsel, consultants, accountants and other experts and acquire goods that the auditor general considers necessary for a purpose related to the exercise or performance of his or her powers and duties under this or another Act.

31. Where the auditor general

(a) considers it necessary to report for the information of the Lieutenant-Governor in Council; or

(b) is required to report to the Lieutenant-Governor in Council for the purposes of this Act, especially in respect of a matter relating to the office,

the report is made through the Minister of Finance.

32. (1) The Commission shall appoint a qualified auditor to audit annually the office.

(2) The auditor appointed under subsection (1), has the same powers and shall perform the same duties in relation to an audit of the office that the auditor general has or performs in relation to an audit performed under this Act.

(3) The auditor appointed under subsection (1) shall submit his or her report to the commission and send a copy to the auditor general.

(4) The Speaker of the House of Assembly shall table the report of the auditor under this section before the House of Assembly immediately after receiving the report by him or her or where the House of Assembly is not then in Session, on the 1st day of the commencement of the next ensuing Session of the House of Assembly or the 1st day after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

33. (1) The auditor general shall submit annually to the commission for its approval estimates of the sums that will be required to be provided by the Legislature for the payment of the salaries, allowances and expenses of the office under this Act during the next ensuing fiscal year.

(2) The commission shall review and may alter as it considers proper the estimates submitted under subsection (1) and, upon completion of the review, the Speaker of the House of Assembly shall submit the estimates as approved by the commission to the House of Assembly for the purpose of inclusion in the estimates of the province for approval by the Legislature.

34. (1) Where the auditor general conducts examinations or audits an agency of the Crown or Crown controlled corporation, the auditor general may charge fees for professional services rendered by his or her office.

(2) The fees referred to in subsection (1) shall be established on a basis that may be approved by the Lieutenant-Governor in Council.

(3) The fees charged and collected by the auditor general under this section shall be paid into the Consolidated Revenue Fund.

35. (1) Persons in the employ of the Department of the Auditor General at the commencement of this Act are considered to have been appointed in accordance with this Act.

(2) Upon the commencement of this Act, the Department of the Auditor General is considered to be and is continued in the name of the Office of the Auditor General under this Act.

(3) A reference in another Act to the auditor general appointed under the *Financial Administration Act* or a reference in another Act to the auditor general shall be considered to be a reference to the auditor general appointed under this Act.

36. (1) Paragraph 2(a) of the *Financial Administration Act* is repealed and the following substituted:

"(a) "auditor general" means the Auditor General of Newfoundland appointed under the *Auditor General Act* and includes all employees acting under the auditor general's direction;".

(2) Sections 58 to 71 of the Act are repealed.

(3) Subsection 83(1) of the Act is amended by striking out the words "and the Auditor General" and the words "or the Auditor General".

Departmental Audits Performed by the Office of the Auditor General

General Government Sector

- Consolidated Fund Services
- Executive Council
- Finance
- Government Services and Lands
- Labrador and Aboriginal Affairs
- Legislature
- Public Service Commission
- Works, Services and Transportation

Resource Sector

- Environment
- Fisheries and Aquaculture
- Forest Resources and Agrifoods
- Industry, Trade and Rural Development
- Mines and Energy
- Tourism, Culture and Recreation

Social Sector

- Education
- Health and Community Services
- Human Resources and Employment
- Justice
- Labour
- Municipal and Provincial Affairs
- Newfoundland and Labrador Housing Corporation
- Youth Services and Post-Secondary Education

Appendix III

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by the Office of the Auditor General

Entity	Year End	Auditors Report
Department of Industry, Trade and Rural Development		
Enterprise Newfoundland and Labrador	31 March 2001	19 July 2001
Farm Development Loan Board	31 March 2001	20 June 2001
Fisheries Loan Board of Newfoundland	31 March 2001	Not Completed
Department of Education		
Newfoundland and Labrador Education Investment Corporation	31 March 2001	18 June 2001
Provincial Information and Library Resources Board	31 March 2001	22 June 2001
Executive Council		
Advisory Council on the Economy	31 March 2001	15 June 2001
Labrador Transportation Initiative Fund	31 March 2001	18 May 2001
Provincial Advisory Council on the Status of Women	31 March 2001	24 May 2001
Department of Finance		
Hotel Buildings Limited	31 March 2001	23 May 2001
Newfoundland Government Fund Limited	31 December 2000	5 April 2001
Newfoundland Government Sinking Fund	31 March 2001	4 June 2001
Newfoundland Industrial Development Corporation	31 March 2001	20 June 2001
Newfoundland Municipal Financing Corporation	31 March 2001	28 June 2001
Province of Newfoundland Pooled Pension Fund	31 December 2000	23 March 2001
Department of Forest Resources and Agrifoods		
Livestock Owners Compensation Board	31 March 2001	8 June 2001
Newfoundland Crop Insurance Agency	31 March 2001	8 June 2001
Department of Government Services and Lands		
Public Accountants' Licensing Board	31 December 2000	20 March 2001

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by the Office of the Auditor General

Entity	Year End	Auditors Report
Department of Mines and Energy		
Bull Arm Site Corporation	31 March 2001	22 June 2001
Department of Justice		
Director of Support Enforcement	31 March 2001	27 June 2001
Newfoundland Legal Aid Commission	31 March 2001	28 August 2001
Office of the High Sheriff	31 March 2001	19 June 2001
Registrar of the Supreme Court of Newfoundland	31 March 2001	15 June 2001
Department of Municipal and Provincial Affairs		
Newfoundland and Labrador Housing Corporation	31 March 2001	29 June 2001
Department of Tourism, Culture and Recreation		
Heritage Foundation of Newfoundland and Labrador	31 March 2001	14 June 2001
John Cabot (1997) 500th Anniversary Corporation	31 March 2001	27 June 2001
Newfoundland and Labrador Arts Council	31 March 2001	15 June 2001
Newfoundland and Labrador Heritage Corporation	31 March 2001	18 June 2001
Special Celebrations Corporation of Newfoundland and Labrador Inc.	31 March 2001	15 June 2001
Department of Works, Services and Transportation		
C.A. Pippy Park Commission	31 March 2001	6 June 2001
Department of Youth Services and Post-Secondary Education		
Newfoundland and Labrador Student Investment and Opportunity Corporation	31 March 2001	6 June 2001
Private Training Corporation	31 December 2000	8 June 2001

Appendix IV

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

Entity	Year End	Auditors Report
Department of Education		
Literacy Development Council of Newfoundland and Labrador	31 March 2001	16 October 2001
School Boards		
Conseil Scolaire Francophone Provincial de Terre - Neuve et du Labrador	30 June 2000	22 September 2000
District #1 - Labrador	30 June 2000	28 July 2000
District #2 - Northern Peninsula/Labrador South	30 June 2000	1 September 2000
District #3 - Corner Brook/Deer Lake/St. Barbe	30 June 2000	1 September 2000
District #4 - Cormack Trail	30 June 2000	12 September 2000
District #5 - Baie Verte/Central/Connaigre	30 June 2000	29 September 2000
District #6 - Lewisporte/Gander	30 June 2000	31 August 2000
District #7 - Burin	30 June 2000	29 September 2000
District #8 - Vista	30 June 2000	3 November 2000
District #9 - Avalon West	30 June 2000	14 November 2000
District #10 - Avalon East	30 June 2000	6 October 2000
Department of Environment		
Multi-Materials Stewardship Board	31 March 2001	16 May 2001
Multi-Material Stewardship Board Waste Management Trust Fund	31 March 2001	16 May 2001
Workplace Health, Safety and Compensation Commission	31 December 2000	23 March 2001
Department of Finance		
Newfoundland Liquor Corporation	31 March 2001	25 July 2001
Department of Fisheries and Aquaculture		
Newco IV Corporation	31 December 2000	22 March 2001

Appendix IV

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

Entity	Year End	Auditors Report
Department of Forest Resources and Agrifoods		
Newfoundland Farm Products Corporation	31 March 2001	18 May 2001
Department of Government Services and Lands		
Board of Commissioners of Public Utilities	31 March 2001	25 May 2001
Credit Union Deposit Guarantee Corporation	31 December 2000	1 March 2001
Department of Health and Community Services		
Newfoundland and Labrador Centre for Health Information	31 March 2001	15 June 2001
Newfoundland Cancer Treatment and Research Foundation	31 March 2001	5 June 2001
Provincial Perinatal Program	31 March 2001	15 June 2001
Public Health Laboratory	31 March 2001	15 June 2001
Community Health Boards		
Central Regional Health and Community Services Board	31 March 2001	13 August 2001
Eastern Regional Health and Community Services Board	31 March 2001	15 June 2001
St. John's Regional Health and Community Services Board	31 March 2001	29 May 2001
Western Regional Health and Community Services Board	31 March 2001	13 June 2001
Regional Hospital Boards		
Avalon Health Care Institutions Board	31 March 2001	23 July 2001
Central East Health Care Institutions Board	31 March 2001	17 August 2001
Central West Health Corporation	31 March 2001	6 July 2001
Grenfell Regional Health Services Board	31 March 2001	7 June 2001
Health Care Corporation of St. John's	31 March 2001	15 June 2001
Health Labrador Corporation	31 March 2001	Not Received
Peninsulas Health Care Corporation	31 March 2001	5 October 2001
Western Health Care Corporation	31 March 2001	18 June 2001
Nursing Homes		
St. John's Nursing Home Board	31 March 2001	Not Received

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

Entity	Year End	Auditors Report
Department of Industry, Trade and Rural Development		
Newfoundland Hardwoods Limited	31 March 2001	26 July 2001
Newfoundland Ocean Enterprises Limited	31 March 2001	31 May 2001
Operation ONLINE Inc.	31 March 2001	14 May 2001
Department of Mines and Energy		
Churchill Falls (Labrador) Corporation Limited	31 December 2000	29 January 2001
Gull Island Power Company Limited	31 December 2000	29 January 2001
Lower Churchill Development Corporation Limited	31 December 2000	29 January 2001
Newfoundland and Labrador Hydro Electric Corporation	31 December 2000	9 February 2001
Twin Falls Power Corporation Limited	31 December 2000	29 January 2001
Department of Municipal and Provincial Affairs		
Municipal Assessment Agency Inc.	31 March 2001	13 June 2001
Department of Tourism, Culture and Recreation		
Marble Mountain Development Corporation	30 April 2001	1 June 2001
Marble Mountain Management Corporation	30 April 2001	1 June 2001
Newfoundland and Labrador Film Development Corporation	31 March 2001	29 May 2001
Department of Youth Services and Post-Secondary Education		
Memorial University of Newfoundland	31 March 2001	Not Received
Memorial University of Newfoundland Pension Plan	31 March 2001	Not Received
The College of the North Atlantic	31 March 2001	14 June 2001